

A FAIR. WAGE

BEING REFLECTIONS ON THE
MINIMUM WAGE AND SOME ECONOMIC
PROBLEMS OF TO-DAY

BY
EDWARD BATTEN
M.I.M.E., ETC.



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THE BIRTHPLACE OF
ADAM SMITH
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FOREWORD

DURING many years the author has sought an honest measure for wages, and in the following pages a standard is disclosed by which it is believed they may be tried, and proved to be either fair or unfair. He is bold to claim a thoughtful reading from all that great majority who are zealous for a fair wage, because a general agreement with what he has written would be one new in time, true in fact, and potent for Industrial Peace.

It is owing to the author's very good friend Mr. Lachlan Macbean, whose newspapers are published in the birthplace of Adam Smith, that the matter of this book appeared as a series of articles in the *Fifehire Advertiser*. The same good friend urged publication in a more permanent and coherent form, and has given valuable criticism and assistance in shaping the work as it is now presented. For these and many other kindnesses the author gladly renders his most grateful thanks.

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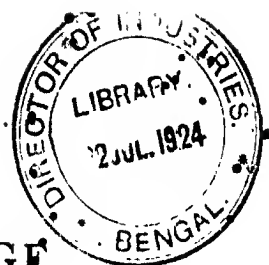
Whilst we are all convinced wages should be fair, there is not any commonly accepted standard, rule, or measure by which their fairness or unfairness can be decided—The Ricardian law: "the natural rate of wages is the least that will support the worker and enable him to perpetuate his kind"—Jevons: "the wages of a working man are ultimately coincident with what he produces, after the deduction of rent, taxes, and the interest on capital"—Walker: "production furnishes the true measure of wages"—It is of fundamental necessity to obtain general acceptance of the truth that wages form no part of the cost of production—As wages can only be paid out of profits, and profits depend on the ratio between cost of production and increase of value produced, the higher the wages, other things being equal, the lower must have been the cost of production.

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A FAIR WAGE

CHAPTER

THE ECONOMIC LIABILITY OF SOCIETY

A PROMINENT member of the Labour Party in a lecture stated that political liberty had now been obtained by the worker, but that he needs, and from henceforward will unceasingly strive to achieve, economic liberty. It is difficult to know precisely what meaning is attached to the words "economic liberty" by those who use them. In part they appear to stand for a condition of increased comfort to be brought about by thought, word and act, directed mainly to the getting by one portion of the community of a larger share of consumable wealth in exchange for less work. In addition, the words are probably intended to carry a claim to the control by the labourer of the conditions and remuneration of labour, and a curtailment of the powers at present exercised by capital. Yet none of these things, nor all of them together, constitute economic liberty. All of them are capable of attainment in some measure, and are, in fact, constantly being adjusted by bargain. They are material possessions, privileges, and functions, at present under the control of certain individuals from whom it is proposed to transfer the control either to other individuals or to the community. Such a transference, either by revolution, or gradually by evolution, is possible, perhaps desirable, but if it were

effected the community would be no nearer economic liberty. Not only labour, not only mankind, but the whole animate creation groans for economic liberty, to be free from the law that the price of life is effort, the fundamental law of the universe, the condition of existence, departure from which means death.

If the Labour Party could give us liberty from that law, there would be but one party in the State; but it cannot, and it is precisely because consciously or unconsciously it believes that it can that those of us who do not accept it at its own valuation are sceptical of its proposals.

In all cases where man has increased his control over the operations of nature, he has done so by conforming to and using the laws of nature, and if it be the case that effort is the law of life, life can only be made fuller and richer by recognizing that law, and so efficiently directing effort as to use it with the least waste. Our efforts take two forms, the well-directed and the ill-directed, the fruitful and the wasteful, and because our knowledge is incomplete all our efforts must be to some extent wasteful. We are often under the necessity of taking action, and we never have the full knowledge which can ensure that the action is altogether wise. But still we must see to it that we do not base our conduct upon a false conception of fundamental law, a lazy acquiescence in a fallacy, a false prophecy, which we love because it is a smooth one. The attainment of economic liberty, the conception of life without effort, is such a fallacy. Our actions founded on such a fallacy must be in the main fruitless, and fruitless effort in a world where life depends on effort is injurious, making for death rather than for life.

When man uses forces to produce a desired result,

the measure of the result increases with the force and decreases with the friction, and who can compute the loss of wealth to the community which has been wasted by friction between its members? Action which is wise and in the interest of the community must, whilst the community is imperfect, be impeded by the community's inertia, by its inherent uninstructed conservatism; but the error of the reformer is the food of such conservatism. Therefore, reformers should, in the interest of their faith, jealously purge that faith from all taint of what is false.

Labour, with all its noble aspirations, its fervent hopes of a better world, its freedom by its very inmost spirit from so many of the errors which are inseparable from convention and privilege, is the most potent saviour of the community from the paralysis of social inertia and timidity. It is for this reason that so fundamental an error as the assumption of the possibility of economic liberty is nothing less than a social calamity, by reason of the waste in friction and misdirected energy with which it clogs the wheels of industry.

The true, the rational, and the just economic ideal for the community is not the mirage of economic liberty but the maximizing of the utilities of the produce of labour and capital. This ideal can only be attained when efficiency in both production and consumption is diligently striven for by the community.

The efficiency demanded is as necessary in one as in the other. By efficient production the produce of every labour hour, every machine, every tool, and every yard of land is made the greatest possible to the community with its existing human and material resources. Efficient production also connotes that the commodities produced should be such as will effect the greatest addition to the sum of human well

being, a condition very difficult of attainment by the unrestricted operation of supply and demand. For demand measured in terms of need may be most urgent, and yet be unable to command supply. Of this the economic condition of Austria at the present time is a terrible example. Yet supply and demand are in themselves the primal basic means by which needs are continually being met, although not satisfied. The satisfaction of needs would be economic liberty, the continual and orderly meeting of those needs is economic efficiency, the art of economics of which true economic science must be the theory.

Much has been written in elucidation of the law of supply and demand, and much in denunciation of it as a malignant growth on the social order. To me it seems that supply and demand are rather the machinery by which needs are met than a law of economics.

All the more complicated operations of society have their counterpart in the simpler workings of more primitive life, and we see that the machinery by which needs are met is universally the hand for supply, the mouth for demand; and not until hand and mouth cease to be the machinery by which individual life is sustained will supply and demand cease to be the machinery for sustaining the life of economic society.

As in the individual life hand and mouth may, by lack of intelligent direction, function as a menace rather than as a support, so with society supply and demand, if not intelligently directed, may become a menace to its life.

It is by demand that supply is directed and set in motion, so that an instructed and wise demand is of the first importance. But before we can be in a

position, to decide what constitutes wisdom in this connection, we must know the goal it is desired to reach. Whatever the goal may or may not comprise, *a social science of economics must at least include the production and distribution of the necessities of life in such measure that all who conform to the laws of the society will have a sufficient supply of the means of subsistence, and can obtain and use these means under such conditions as will maintain the life of the existing members of the society at its highest pitch of strength and vigour.*

If the life of man, as man, depended only on the provision of a sufficiency of food, warmth and shelter, the right ordering of supply and demand would be a much simpler problem than it is.

In considering the goal to be sought for any living species, we must, I think, study the history of development in the past. If we do this, we see that persistence of species has entailed the evolution in species of a continuously increasing development of the attributes wherein each most differs from its contemporaries. This has been so universal in the history of all life on our planet that it may well claim to be the law of life, and if by crossing we make an exception the progeny is usually sterile, and the law of divergence is vindicated.

Man, as man, lives not "by bread alone, but by every word that proceedeth out of the mouth of God." The beings that live by bread alone are not man. The economics that would provide for their needs is the economics of the trough and the sty, but the economics that would provide for man's life must produce words out of the mouth of God. For it is the primal characteristic of man that he needs these words to live by; they indeed are the differentia which distinguish him from other life, and, by the universal law of life it

is these characteristics alone which justify his existence on an evolutionary planet.

If man could live by bread alone the production of a sufficiency of bread, by all, for all, and the distribution to all in proportion to necessity, would comprise the whole art of economics. The art might still, with large populations and diversity of soil and climate, not be an easy one, but at least the theory would be simple.

Amongst the causes which promote the evolution of man on his special and distinguishing line of development, probably the most active is his fundamental dissatisfaction, a dissatisfaction insatiable and infinite. To conceive of a satisfied being is to conceive of a being other than man, so that a science of economics relating to man must be one which excludes the conception of satisfied man. The recognition of this fact clears away some obscurity from the problem. But if the aim of economics should not be *satisfaction* of the body politic, it should and must be *health* in that body, and health if not compatible with satiety includes and must include contentment. A state of satisfaction is a state of torpor and acquiescence, taking away incentive to effort, a stagnant life, and if not an absolute contradiction in terms it is at least a denial of evolution, a turning back from the line of progress which all through the history of the race has constantly made more pronounced the characteristics which mark the peculiar divergences of man from the other members of the animal kingdom. On the other hand, a state of contentment is one in which man is so endowed and equipped for living, that achievement is constantly and consciously attending upon wise and well ordered effort. It depends not at all on the actual plane of achievement at present

reached. It is life of which we may use Wordsworth's words and say "we live by admiration, hope and love."

In reality we are all agreed that contentment does not depend on the actual scale of possession of the amenities of life. Otherwise contentment would be more widespread in the present era and state of civilization than in any former period in the long history of man's evolution. But it is notorious that this is not the case. We see also that the different degrees of command over the amenities of life at present possessed by different individuals are in no way a measure of their contentment with the life they are living.

The old time phrase of "the greatest good for the greatest number" has much to commend it as a motto for the economist. Perhaps it would be sufficient were it not tainted by association with measures and arguments which notoriously have failed to secure that end in practice, and which to some extent have even operated to defeat that end. Labour's charge against the present social order is that it does not work; and yet the claim of the *laissez faire* school of economists has always been that enlightened selfishness and competition would produce the greatest good for the greatest number. The claim may be a true one in the abstract, but as a relative truth in a concrete world, it is vitiated by postulating an impossibility, inasmuch as selfishness is incapable of enlightenment.

Honesty is the best policy, but all the advantages which may be gained to the individual by the pursuit of honesty as a policy, would be gained in much fuller measure by the practice of a dishonesty so cleverly conceived that it could not be found out. The failure of the present social order to work, in so far as it is not caused by idleness and ignorance, is caused by the

pursuit of selfishness as a policy astute enough to place the penalty on the weakest practitioners of the system.

The aim of Labour is by combination to increase its strength and to place the penalty on other shoulders; the aim of true wisdom is to root out selfishness and with it abolish its penalties. We should give to this wisdom a world-wide application. We have been told to think imperially; let us go further and think racially, always remembering the greater includes the less. "If a man love not his brother whom he hath seen, how shall he love God whom he hath not seen?" We must guard against a cheap internationalism, which would pay for the practice of selfishness with those of our own house and country by a sentimental posing as an enlightened citizen of the world, and by a fervent expression of the desire to help all causes which by their remoteness or difficulty condemn the desire to waste itself in impotence.

Having to some extent defined the goal which man as man should constantly and by constant effort spend himself in attaining, I would consider the economic steps which lead along the pathway to the goal, and first amongst these steps I place the establishment of a just minimum wage.

Necessity is a law unto itself, and knows no other law; a just minimum wage is a law of necessity, for without it all the existing members of the community cannot continue to exist in health and vigour; and most emphatically any system which does not meet this primal necessity does not work as a social order. It is indeed but a vampire system, draining the lives of some for the nourishment of a foul corruption of others.

Labour is unanimous on the minimum wage, and

Labour is right. Truly "the heart knoweth its own bitterness." It is of no avail to say that society as at present constituted cannot guarantee a minimum wage. The reply to that is that such a system of society is one which does not work; and Labour is prepared to begin by establishing the minimum wage and to continue by perpetuating it. If its action results in the destruction of the present system of society Labour would look upon that destruction without regret, as but the scrapping of machinery which is not capable of being used to do the most necessary work for the community, that is, the providing of the means for the healthy and vigorous life of all its members. No machinery for social order is adequate which is incapable of being worked for the provision of its primal needs. It is both desirable, and, if it cannot be improved to adequacy, inevitable that its destruction should be accomplished. The destruction will, in the nature of things, be wrought by those who suffer from its failure.

The onus lies on the supporters of the present social system, to—bluntly expressed—get on or get out. Socialism has a plan for getting on; if those who are opposed to Socialism have none, and can devise none, their system must, as desirably as inevitably, suffer destruction. It is a sound maxim in conduct that first things should first be dealt with. This matter of the minimum wage is a first thing; the first thing in the present condition of economic development. The minimum wage is an irreducible liability, a first mortgage on Society, and Society must either go bankrupt, or discharge this liability by such reconstruction as will increase its assets.

In any discussion on the problem of providing a minimum wage we should define what the problem is,

and what the solution we seek. To commence with : the minimum wage must be a real one, real in the sense that, independent of the currency at the time, it must provide all that is economically necessary for the wage earner to live in health and vigour. It must be earned in such conditions of employment and in such a number of hours as will permit of the labourer having such time for rest and recreation that he will be neither physically nor mentally impaired by his work. It cannot be less than the amount which Ricardo defined as the Natural Price of Labour, the sum "necessary to enable the labourers one with another to subsist and to perpetuate their race without either increase or diminution." A man should *live* by his work, not *die* by it, and every Monday morning should find him, so far as his work acts upon his life and character, rested, refreshed and restored to strength. Also it must be real wages, in the sense that it must not be a dole, but a share of the increase in values which his work has produced. And his share of these values must be less than the total by an amount that will leave a sufficient margin to pay for the raw material used, to make good the wear and tear of the tools and machinery employed in the operation, and to provide at least for their renewal, with the addition in a progressive community of making provision for the improvement of such tools and machinery. Every failure to fulfil each and all of these conditions results, not in the provision of a minimum wage, but in the taxation of other members of the community. And these conditions are just as obligatory under a socialistic system as under that at present operating in the industrial world.

The present system is, however, apparently handicapped by a further necessity, that is the provision

of interest on capital, the burden of which the advocates of socialism claim they would not need to carry. Yet even a socialistic State would need to provide a margin for insurance against accidental losses and for depreciation, and, if it were progressive, for industrial experiment either not successful or not immediately self supporting.



CHAPTER II

EMERGENCE OF THE MINIMUM WAGE

THE Labour Party from its constitution and its theories in approaching the problem of the minimum wage would be uninfluenced by the definition of what constitutes the difference between a dole or tax and a wage, and would probably as its earliest measure establish a minimum payment to the labourer, irrespective of whether or not it were earned by a sufficient increase of values to balance this payment.

This procedure would have the advantage of simplicity, being the shouldering of a responsibility not fully comprehended with a cheerful if uninstructed hope that the back would be fitted to the burden. There is no doubt that experience has in many instances justified such rash action. Indeed all successful adventure and discovery have owed something to like rashness, and if in many cases the first adventurer has proved not to be sufficiently equipped to bring the matter to a successful issue, success has been ultimately reached by others whose capacity and resources were more equal to the undertaking, though their zeal was too much under the control of their discretion to permit them to take the initial plunge. Such plunges are always easier to take by those who are suffering intolerable conditions, or to whom the prospect, if successful, presents advantages which are supremely desired. There is therefore abundant reason why the Labour Party should embark on this venture, and it is but to imagine a vain thing to suppose that the attempt will not be made.

Those who know how difficult the problem is, who conceive of the minimum wage as a real wage, earned by effort, and contributing its quota to the wealth of the community, may well shrink from voluntarily making attempts at its solution, where failure of the attempt might easily entail economic disaster.

To-day it may be but a speculative problem, but the morrow is very near, when it will have passed from the region of speculation to that of a legally established claim on the earnings of the community for which provision must be made.

For the enquiry into the economic effects of the operation of a statutory minimum wage, and the possibilities of meeting such a statutory liability in the manner most conducive to the well-being of the community, we should, I think, simplify the problem as far as possible by ruling out of the enquiry accidental economic issues which do not bear directly on the subject of enquiry.

We are, therefore, justified, it seems to me, in excluding from the enquiry consideration of the effect it might produce upon population, or the way in which an increase or decrease of population might affect the result. For economic conditions under any system of society are affected by relative densities of population, and the effect of these densities, whatever the social order, is the same, in kind, at least, if not in degree. We may therefore for our immediate purpose assume a stationary population. We may also assume that, when wages are adjusted by the free play of economic forces, whatever differences exist in wages represent different degrees of utility supplied to the consumer by the services rendered for the wages, as there cannot be two prices for the same thing in the same market. The tendency is that the earnings of capital

in the economic world will be continually approaching a uniform level by capital being withdrawn from the less remunerative and invested in more remunerative channels. Capital doubtless is wasted in the withdrawal and reinvestment, but that seems inevitable in a world of changing conditions. The contention of the older economists would be that the same conditions apply to labour, which should be withdrawn from the ill paid and transferred to the better paid activities. But the characteristic of free or unemployed capital is that it has the quality of being capable of application indifferently to any sphere of activity where the prospect of its employment appears likely to be most profitable, whereas free or unemployed labour, if skilled, is as a rule skilled only as regards one trade. If that trade fails to provide the minimum wage the workmen who have practised it become merged in the ranks of unskilled labour which form the worst paid and the most irregularly employed group in the community. By reason of its existence this group is, under the free play of economic forces, the most powerful factor in depressing wages (in all industries for which its members are capable) to the lowest rate at which the worker's subsistence is possible on a scale of living tolerated by society. It is a truism that one-half of the world does not know how the other half lives, and for that reason the ignorant half in its ignorance acquiesces in conditions of existence that knowingly it would not tolerate, for it does not know that the social system does not work.

The Labour Party has many ignorances, but this is not one of them, and in many of its members there is an intimate and personal knowledge of this failure, and with the knowledge a stern resolve that what is

intolerable shall no longer be tolerated. The Labour Party will, therefore, irrespective of economic theories, establish a statutory minimum wage on a scale which is tolerable to those who have intimate knowledge of the lives possible to those who receive this minimum.

This statutory wage having been determined, upon, I propose to enquire how it can best be provided, and whether a more enlightened and better developed conduct of the present social system, or a socialistic State is the better fitted for the life of the community. The life sought must provide the fullest measure of contentment to those faculties of man's nature wherein his divergence from the other families of animal life is the most marked. For simplicity in the investigation it seems well to consider a single trade, for instance that of cheap clothing, as this is a large industry and one that in times of stress commonly provides examples of a very low wage rate, and in addition the employees in this trade are usually amongst the least fitted by physique and capacity, if displaced from their present employment, to engage in a more profitable industry.

The first effect in this trade of a rise in wages by the establishment of a legal minimum would be to increase the selling price of the commodity being produced. It is to be expected that this increase in price would reduce the demand for the goods, and consequently a proportion of the workers in the industry would be dismissed from their employment, and become chargeable on the community for out-of-work pay. It appears equally obvious that as considerations of prudence would determine that out-of-work pay be less than the minimum wage paid to the workers who are employed, the effect of interference with the free operation of economic laws would be anything but an unmixed blessing.

Before the wages for each worker in the clothing trade were increased, the funds from which wages were paid were provided entirely by the consumers of the clothing; but after the rise in wages and consequent rise in the price of the commodity, the consumer would be able to purchase fewer clothes for the same sum, and to that extent he would suffer loss, though that sum would support fewer workers in greater comfort and the displaced workers would become a charge on the whole body of taxpayers.

There is one way in which the increase of wages could be provided without causing any unemployment in the clothing trade, any loss to the consumer, or any burden to the taxpayer, i.e. by increased production on the part of those members of the community who are not in the clothing trade, for if the wealth of the consumer be increased he can without curtailment of his outlay in other directions increase the amount he spends for clothing.

CHAPTER III.

THE MINIMUM WAGE AND INTERNATIONAL RELATIONS

THE preceding chapter closed with an illustration of the law very imperfectly apprehended, and yet of such paramount importance that the neglect to give it due weight when formulating plans of economic policy is the cause of almost all the disastrous mistakes that are so frequently made. The law may be stated as follows—

The material prosperity of an individual, a group, a nation or a continent, rises and falls with the rise and fall in prosperity of every other individual, group, nation or continent to the extent that the several parties have any direct or indirect dealings with each other.

All dealings in trade, when analysed to their simplest form, consist of the exchange of commodities or services, between parties until the subjects of the exchange attain their highest consumable value as measured by effective demand, at which point they pass into consumption. In other words, goods pass from hand to hand in trade until they come into the possession of the individual who esteems the pleasure or profit to be enjoyed by consuming them or using them as outweighing any profit it is possible for him to make by re-sale. If it could be secured that the degree of need were the measure of the effectiveness of demand, the total wealth of the community would be used with perfect economic efficiency, for the extent of the possession of the means of material well-being by every individual party to the exchange would

depend solely upon the amount of the total production of the several parties having dealings with each other. This is but to say that if the productive powers of the community were employed in producing such goods as were most needed, and these goods could be secured by the members of the community who were most in want of them, the question whether the wants of the needy were fully supplied or not would depend only on whether the output of the industries producing the goods were large enough for the purpose. It is the business of the economist to formulate a theory which, practised as an art, will secure such a character to effective demand, and to demonstrate that it has that character when, in as far as the community consisted of men of goodwill, its energies would be directed to increasing production by every resource of invention, labour, and capital.

The establishment of a statutory minimum wage, with taxation to provide for the unemployed, is a rough and ready attempt to make need the measure of the effectiveness of demand, by making intolerable necessity a first charge on production. Up to the present time it is the only proposal made, and unless and until a better solution is offered it must hold the field in practical politics.

The fact that it would improve the material condition of the most necessitous members of the community, and that this would be accomplished (provided the production of the community were sufficiently increased) without any reduction in the standard of comfort already enjoyed by the more fortunate members, is evidence that the proposal even if crude and imperfect, is on right lines, making the material well-being of every member of the community directly dependent on its intelligence and industry.

The shopkeeper in a mining village has no misconceptions about the fact that his prosperity depends on the prosperity of his customers, the miners. The manufacturer and merchant who supply the shopkeeper are also well aware that their prosperity depends upon his. The importer depends for his market upon the merchant, and all depend upon the industry and effectiveness in agriculture of a Russian peasant to the extent of the importer's dealings with him.

If the Russian peasant has failed by reason of political disturbance, by famine, by imperfect machinery, or by uninstructed methods to produce any surplus for export, the miner must give more coal for his bread to enable agriculturalists in other countries to employ more labour and capital in producing food for his needs. If the harvest in Canada is a good one, the miner in Britain reaps the benefit; if it is a bad one, he suffers a loss. If peace comes to Russia and plentiful harvests, we share in the prosperity. If its railways and transport are improved, the yield of its agriculture is of greater benefit to us. If Germany can recover quickly from the War and supply Russia with the means of reinstating its railways, and with agricultural machinery to increase the production of its land, Germany will in a very real sense be making reparations, i.e. she will be busy repairing the destruction wrought by her crimes against the human brotherhood.

It is generally admitted that any increase in the prosperity of the purchaser is to the advantage of the seller; indeed, in many cases it is the recognized practice that the price of similar commodities and services is higher to the more wealthy than to the poorer purchasers. In the payment for services rendered by the medical profession, for instance, the scale

of payment commonly varies directly with the affluence of the patient as computed from the class of house in which he lives. It should be realized that in all transactions involving purchase and sale of commodities or services, both parties are equally purchasers and sellers; and that the calling of the one a purchaser is merely a convention to convey the information that what he contributes to the transaction is not a definite commodity or service, but a means of exchange. This means of exchange it is assumed will enable its recipient to obtain by a subsequent transaction any commodity or service of equal value to the commodity or service which he as seller has contributed to the first transaction; and if all this be realized, it will be admitted that in any dealings individuals have with each other the prosperity of either party to the transaction is altogether to the advantage of the other.

If the analysis be carried further it will be seen that at every link, however long be the chain of exchanges or dealings, the measure of utility secured by every party concerned in any of the transactions is increased or diminished with the increase or diminution of the prosperity of any party concerned in any of the transactions. Let us begin with the purchase of a pair of boots. If the purchaser is wealthy he will acquiesce in the payment of more for boots than if he were less wealthy. If the seller has many boots to sell, he will be able to sell a pair of these for less than he could sell if they were all he had. If the sale of the boots were to provide the seller with the means to buy corn, the fact that the seller of corn had a large stock would enable him to supply a portion of his stock more cheaply than if his stock were small. So the purchaser of the boots and the seller of the boots both profit by the prosperity of the seller of corn.

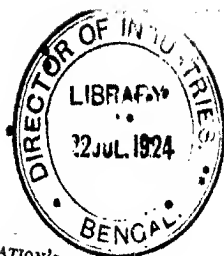
This argument would probably be admitted as a general principle by many who would oppose its application to a grower of corn in Russia, who owing to the prosperity of a German manufacturer of agricultural machinery might obtain this machinery so cheaply as to be able thereby to increase the produce of his land. Yet the effect of the increased supply of corn would result in the purchaser of boots, made, perhaps, in Northampton, having cause to be thankful that sufficient had been left in German pockets after searching them, to enable the agricultural implement maker of that nationality to carry on his industry successfully.

It follows from the above considerations that the provision of a real minimum wage is made much easier by prosperity in Russia and the revival of Germany as an effective producing member of the comity of nations. It may be objected to this that this conclusion is one consonant indeed with the economics of the trough and the sty, but man as man demands that his supplies of food and shelter should be increased under such conditions as make for his development upon the lines of his divergence from the rest of the animal kingdom. One of these lines of divergence is an increased sense of the importance of justice and what he considers to be righteousness. The last word is often used ambiguously and made to connote piety or even the burlesque of piety, piousness, but it is a right-down good word, and in this book will be used as the name for a thing which is admirable to all men of goodwill, Pagan, Jew, Christian, Buddhist, or Mohammedan, equally acceptable to Socrates, Moses, St. James, Siddartha or Mohammed.

This conception of righteousness includes as the machinery for its advancement penalties for wrongdoing, and the fact that the enforcement of the penalty

is costly to him by whom it is enforced is no argument for its remission by man who conceives that not only should his bread be eaten in the safety of his sty, but that he should eat it clothed in the garments of righteousness.

The knowledge of the costliness of "reparations with a vengeance," not only to the defeated but also to the victors, must, however, have a profound effect on the form and extent of the reparations to be demanded, for it will ensure that they be enforced in the full consciousness that they form a costly sacrifice for righteousness' sake, to be made by victor and vanquished alike.



CHAPTER IV THE MINIMUM WAGE AND THE NATION'S DEFENSIVE STRENGTH

HERETOFORE we have considered the economic question generally, and the provision of a minimum wage in particular, as conditioned in a world where the only dealings between states and individuals are the peaceable exchanges of commodities and services at their relative values as disclosed in terms of effective demand, and we see that in such a world the prosperity of every individual and of every community is indissolubly bound up in one great partnership of the human race. Unhappily, however, such a world never has existed, does not exist to-day, and may never exist. It is perhaps the ideal which man has been approaching as he advanced on the path of his characteristic development of type, the centre of a supreme asymptote, beginning and ending with the beginning and end of time. If we postulate a world in which nations and individuals seek only their own advantage not by peaceable exchange which is profitable to all, but by war, violence and robbery, the aspect of the problem is entirely changed, and the resultant altogether different. In such a world where every nation is a possible enemy, the efficiency of each is a menace to all the others, and its prosperity the food on which the menace grows strong, and those nations which are voracious will do all they can to impair the prosperity of their potential enemies, in which category they will number all who approach to the same standard of wealth and power as themselves.

• The peoples who, owing to their history and their

geographical position, are or a less timorous temper, and those the least blind to the supreme economical advantages of peace, will be more friendly disposed to other nations' prosperity, and except with certain nations and at times of national estrangement or panic, will so conduct their foreign trade as to increase the mutual prosperity of all parties to that trade. Their inheritance of the material wealth of the earth will be less impaired by their fear of wars, and they will be better furnished to support the calamity when unhappily they find themselves by their virtue, their misfortune, or their fault, engaged therein. Herein an empire such as the British has a great economic advantage, made up as it is of States each so economically important and wealthy as to be able to be of the highest mutual helpfulness to each other's prosperity, and confident of each other's goodwill, content to develop that prosperity unhindered by fear or jealousy. Evidently, therefore, the provision of a minimum wage is made more easy as the constituent nations of the British Empire are bound in closer amity with the resulting greater prosperity.

The United States of America form another example of the great increase in productiveness possible to a people whose development is not restricted and maimed by the fear of war. But it is a question, how far the highest benefits which its resources might afford both to itself and to other nations are not lost by a perverted trade policy, which originates in the misconception that its well-being depends on its detachment from the rest of the world.

At a time when we have so recently experienced the calamity of war, and are suffering from all the hardships of victory, that which defeat is the only greater economic disaster that can overtake a nation,

ordinary prudence must, in any attempt to formulate a system of economics, take the possibility, perhaps even the probability, of war into consideration, and the judgment of the economist upon reparations must be altogether different from what it would be if he looked upon them as the first act of peace. If they are the last act of war, the greater the relative damage they inflict on the enemy, the more perfectly they conform to their character; if they are the first act of peace, the more clearly recognizable they are as a judgment vindicating righteousness, the greater is their effectiveness. In any case if peace is to follow, the less they impair the economic strength of Germany the less costly will be their enforcement to the community of nations.

Peace and freedom from war's alarms being the supreme necessity for the prosperity of the community—to advance which is the work of the economist, as thereon depends the real wages of the worker, either minimum or maximum—any enquiry into economics must search out the possibilities of approaching a condition where those benefits may be enjoyed. Probably in many cases more economic loss is caused to the community by the fear of war than by the calamity itself, for a State under the continual pressure of such a fear may so mishandle its foreign relations, and so misuse its domestic energies, as to be constantly suffering impoverishment, and by persistent wastage of its resources sap its strength both for war and for peace. The State in its foreign relations should carefully avoid any provocative action, it should manifest a spirit of fair dealing and friendliness, it should be considerate of the prejudices and careful of the susceptibilities of others, doing its utmost to convince that for its part, and as much as is in its own

power it will live peaceably with all. By such means its potential enemies will include only the revengeful, the malicious, and the brigand, against the animosity of whom it must so order its internal economy as to present a front manifestly impregnable to assault; so seeking peace and ensuring it that the blessings of peace will be enjoyed to the fullest extent possible in a turbulent world.

A nation's greatest strength is a loyal, intelligent, virile and contented people, so its first defensive care should be the building up of such a community, the means for the material foundations of which it is for the economists to produce. The foundation stone must be the minimum wage which is thus seen to be as important for defence in war as for contentment in peace. To possess goods in safety it is necessary to be not only strong but as a strong man armed, for however peaceful be a rich and unarmed nation, it forms too easy and desirable a prey to escape the attacks of the envious and the plunderers. Armaments and military preparedness, though a charge on prosperity, are a necessary insurance premium, and in the case of a peaceful nation they reduce the probability of war and the fear of it which we have seen has such a disastrous influence on a nation's economic progress. There is small danger that a nation convinced of the blessings of peace and desirous of promoting the prosperity of its neighbours, fully realizing that the prosperity of each is to the advantage of all, will waste its resources in armaments. Probably the danger is rather that their provision being a factor which reduces the standard of material comfort otherwise possible, this provision will be more scanty than prudence and sound judgment demand. The sufficiency of armaments is always a relative sufficiency;

three thousand miles of land and water, the frontier between the United States and Canada has neither a gun nor a war vessel, yet it is in less danger of violation than has ever been the frontier between France and Germany, for the safety of which these nations spend so largely of their resources. The economist will always urge the limitation of armaments by agreement, knowing that the swords which are beaten into ploughshares by agreement make peace more secure and add to its blessings.

If the nations of Europe could discover the secret of the unarmed security which enables the United States and Canada to possess their homes in peace without either fear or doubt of each other's power, and could and would use the discovery to promote the same ends, they might enter into a new world immeasurably enriched in all possibilities of well-being. Whatever the secret may be it evidently is not that they are far removed from Europe, or that they have comparatively newly peopled their respective countries, for these conditions are equally true of South Africa. It has been said that gold produced war in South Africa, yet the gold of California or of the Klondyke did not produce war. It has also been said that the existence of a Republican form of government in the Transvaal and the Orange Free State side by side with a nation forming a constituent part of the British Empire produced war, but there is the same contrast in government between the United States and Canada. The United States and Canada speak one tongue; with Boer and Briton, this is not the case, and this difference in conditions is doubtless an important one as identity of language promoted understanding, and mutual freedom of access to the same literature with equal comprehension of its spirit must also be a powerful

influence in bringing the two nations to identity of aim and aspiration. However much to be wished for from a purely economic standard, uniformity of language is neither possible nor indeed to be desired, for many important phases of national life and character are dependent on the preservation of diversity of speech for their development. Personal and national enmity in many instances has its roots in misunderstanding, while constant and intimate intercourse, by promoting fuller knowledge of our neighbours, reduces the danger of war being caused by our failure to comprehend their characters and objects. Still there is much enmity which is increased rather than diminished by closer contact, making antagonistic aims and motives more clearly apparent and the resentment between the opposites more passionate.

To the English-speaking nations the bond of a common language is an inheritance from the past, entailing as great responsibilities as opportunities, a responsibility among themselves that in their dealings with each other they will make manifest in action the economic truth that the prosperity of each is a fundamental necessity to the highest prosperity of all, that jealousy should not be felt of the nation that increases in prosperity and is thereby able to raise the standard of comfort within its borders, but rather a healthy spirit of emulation to march at least abreast with it along the line of progress, a resolution to learn the lessons of which its successful experience has proved the value and demonstrated the possibilities which attend upon their practice. They will thereby be discharging their responsibilities to the nations which have not this common bond, demonstrating the fruits of living national life in a spirit of good feeling, expressing itself in helpfulness, and showing the possibility

of this by the example of countries which are widely removed by distance, diverse or identical in their natural resources and the degree to which those resources have been developed, different or identical in their machinery of government, with frontiers separated by oceans or only by a conventional line, in many cases having populations of different religions and races to whom the bond of a common tongue is only coming into being, but where the emanation of the spirit incarnate therein is already active. The whole world by such a demonstration would be brought nearer to peace and the blessings of peace secure and unafraid, filling its barns by the strength of its contented labours and eating of their fatness in the safe repose from which envy, hatred and malice had been banished by sweetness and light.

Yet, while all that is possible is being done to demonstrate the material advantages of the practice of sound economic principles, the necessity of defence against the unconvinced and the brigand must still exist; and this defence must be military preparedness. The duty of the economist is to see that it is sufficient, and that it impairs as little as may be the economic life of the country. The mental and physical vigour of the community is in any case his first care, so that all measures of education and training which promote these will be welcomed, for these indeed will be as valuable for peace as for war. The economist will esteem them at their full value for all organized effort of disciplined activity, and for the same reason he will use his influence to advance the nation in wisely conceived measures which promote discipline.

He will not be ignorant of the economic advantages which so often arise out of the pursuit of scientific research and experiment conducted for its own sake,

nor of the tremendous results for the betterment of civil life which in the domain of engineering and chemical science have followed from efforts to improve the machinery of war. He will therefore encourage invention, research and experiment, for the improvement of armaments; knowing that much of the outlay will be returned to the community in the form of productive powers.

Above all, the economist will show a constant and ardent interest in everything appertaining to the defensive forces of his country. Whether they be small or large, he will see to it that they are prepared and efficient in organization, so well proportioned in their separate branches and provided with such munitions and equipment, that every unit may add its best strength to the whole, and will take such thought for their personal well-being and the natural aspirations and susceptibilities of officers and men, having regard to the prevailing standard of civil life, as may secure to them as near an approach to the desirable features of that standard as is compatible with military efficiency.

CHAPTER V

TAXATION AND THE COST OF THE MINIMUM WAGE

So far as our enquiry has proceeded, no line of divergence has emerged between the procedure which would be economically wise in a socialistic State, and that which would have the same character if an enlightened social conscience so transfused the present order of society that it accepted its primal obligation to ensure, as has been previously urged, the production and distribution of the necessities of life in such measure that all who conform to the laws of society have a sufficient supply of the means of subsistence and can obtain and use those means under such conditions as will maintain the life of the members of the society at its highest pitch of strength and vigour.

We have seen the economic possibility of achieving this object by the machinery of a minimum wage, without increasing unemployment provided there be a general increase of production, the minimum wage then operating simply as an arbitrary measure by which the social conscience adds to the demand of necessity the power which enables it to develop into effective demand.

Provided there be no general increase in production, let us now consider the economical changes in the community which follow from the creation of a new effective demand. It is obvious that one of the consequences will be that demands which have heretofore been effective and met by supply, will under the changed conditions no longer be so met, and there will be a diminution of the production of those classes

of goods which in the past have been made for supplying the demand which has ceased to be effective, and an increase of the production of goods to supply the necessities of the minimum wage earners who are now consumers with the means of purchasing the commodities they demand. The first manifestation of this change of demand under our present social system would be, if the minimum wage earner has been underfed, a rise in the price of food. The effect of this would be that the production of food would become more profitable, capital would be withdrawn from employment in those directions where effective demand had become less and invested in the production of food, with increase of employment and wages in agriculture, and decrease of employment and wages in those industries whose effective demand had been reduced. The fact that this change has not been brought about by the free play of economic forces but by the arbitrary decree of the social conscience, and that the conclusions of economic science are far easier to reach and of higher validity when solving problems concerned with economic forces alone, makes the introduction of arbitrary forces to the problem a most unwelcome one to the economist. He will try to reduce the interfering factors to the minimum, and as far as possible, work out his solutions by the relative increase and decrease of the importance of disturbing factors with which he has been accustomed to reckon rather than by adding to the number of those factors.

He finds that in practice the State already provides that its individuals are protected against actual starvation. He knows that the provision of a minimum wage must be attended with unemployment, either constant or periodic, and that the enlightened social conscience, which has decreed the minimum wage will

also raise the standard of existence below which it will not suffer the unfortunate to fall. This will be raised from the actual starvation line to one above the point of such destitution as will impair the strength and efficiency of the unemployed by wasting the productive powers of the community. The means by which starvation is provided against are familiar to him as taxation, and it is by either increased taxation or redistribution of its proceeds that the funds must be found to provide that the commands of the awakened social community may become operative. There are two imperative principles which must be observed if taxation is to follow economic lines; the first is that it should take such a form as will reduce the cost of its collection to a minimum, the second that its incidence must be such that it will impair the productive capacity of the community as little as possible, by confiscating only such utilities as are the least important to the development of those essential faculties which make for man's continual advance upon the lines of his divergence from other forms of animal life. There is a pseudo principle of taxation dear to the empiricist which has been picturesquely described as that which plucks the most feathers from the goose with the least cackling of protest. In other words, hidden taxation; commonly badly conceived if judged by the standard of economy, and always prejudicial in that it fails to keep alert the vigilant criticism by the taxpayer of the expenditure which makes the tax necessary. In a state where political power is based upon the votes of the whole community, taxation when not secret or disguised will be so levied that the utilities controlled by the minority are first confiscated. The minority, once a minimum wage were established, would be those who possessed, in addition to the utilities

which every member of the community enjoyed, the greatest wealth of other utilities.

It is noteworthy that until political power is equally the possession of every member of the community, and especially as long as it is withheld from the most destitute, the incidence of taxation being likely to fall more heavily on those devoid of political power, it will in all probability result in such taxation as will take from the poorest all that can be taken compatible with continued existence, and the Darwinian law of the survival of the fittest will operate by the starvation of the less fit. This is really only another way of stating Ricardo's law of wages, i.e. "That the natural rate of wages is the least that will support the worker," starvation being the means by which this rate is constantly being adjusted to the correct standard. It does not appear that any enlightenment of selfishness, whilst it still remains selfishness and controls political power, can have any other result than confiscation of the utilities of the politically weak for the purposes of the politically strong. This will be the result equally, whether the power be in the hands of the most wealthy or the poorest. In the one case the utilities of the poorest will be confiscated; in the other those of the most wealthy. In neither case will the play of economic forces be either more or less free, nor will the limitations of their action be of different kind or even degree, the only modification being that the same conditions of their operation will be controlled by a different group of the community.

The economist is the servant of the state; his work is to develop the science of the production and distribution of utilities in the manner best calculated to advance its prosperity, and the national conscience having decided upon a minimum wage it is for him

to accept the limitations of this condition as a constant factor in all his problems.

The bitter controversy between the protagonists of rival systems of social order and disorder has for the very core of its hatred, malice and uncharitableness the economic question: "Whose utilities are to be confiscated?"—or expressed in still milder phraseology "What is to be the incidence of taxation?"

In a state where the prerogative of government is exercised by the majority, the utilities possessed only by the few tend to be those first subjected to confiscation. Such, indeed, is the principle of the super-tax, and the tax on excess profits. In its simplest form it would be so operated as to provide that the sum to be raised by taxation having been decided upon, this sum should be entirely taken from the possessions of all those whose wealth exceeded a certain standard, so that at one end of the social scale would be the minimum wage earners, and at the other end the possessors of the maximum wealth compatible with the existence of a minimum wage, with infinite gradations of wealth possessed by individuals between those arbitrary limits, below the lower of which no taxation should be paid. The simplicity of such a scheme of taxation is a point in its favour. The cost of its collection would be probably the lowest possible for the amount collected. It embodies to some extent the principle of graduation, as those individuals who were just above the border line which separated the taxed from the untaxed would pay an amount so small as to be almost negligible, so there would be little temptation to these illegally to evade its payment, particularly as inclusion in the select body of taxpayers would probably confer a certain amount of social distinction.

The question whether such a tax should be levied entirely upon income, or to some extent upon capital, is one to be decided on the same grounds as those by which the answer is determined with reference to any other system of taxation. In the writer's judgment the weight of economic reason is overwhelmingly in favour of taxation being restricted entirely to income. First, on the score of economy in collection, since the arriving at a valuation of capital would be a most difficult and complicated undertaking, demanding expert knowledge even to approach a correct estimation, and utterly impossible of exact determination. Next, it would need to be expressed in terms of currency, and how complicated a task this would prove is seen by the fact that the stock exchanges of the world exist to determine this valuation, and the variations of prices of which their lists form the record demonstrate not only the difficulty of ascertaining in terms of currency the capital value of any security, but also the instability and continual variation in that value.

Whatever be the incidence of a system of taxation, if it is to receive any measure of acceptance by those upon whom it is levied, it must be capable of being imposed equitably in accordance with the principles it is formulated to carry out, and it is evident that a tax levied on the securities of an individual, because these securities were assessed at a certain capital value, must in equity be returned to the person taxed should his securities subsequently be proved to have been over estimated. For these reasons a tax on capital would be one of the most difficult and expensive to collect, and such a system the most controversial to administer it is possible to conceive.

Secondly, let us consider how far a tax on capital conforms to the second economic law in the light of

which it should be criticized, namely, that it must impair the productive capacity of the community as little as possible. From the fact that capital tends always to be invested in enterprises which its owners conceive to be the most likely to produce profit, and, as these owners use their utmost capacity of knowledge, industry, and prudence to ensure that it is so invested, it may be fairly assumed that capital is at any instant already invested where it can be, of the greatest efficiency in increasing production. Consequently, any displacement of capital in the form of investment must inevitably impair the productive capacity of the community, and offend against this second law. It would, of course, be possible for the state to confiscate the securities themselves and thereby avoid the displacement of invested capital, but securities would not satisfy the purpose for which taxation is levied, which is to provide free capital which the state can apply in any direction for the discharge of its various liabilities. A tax such as we have been considering, if levied on income, is altogether easier of assessment and collection. It is easier of assessment because income is already expressed in terms of currency so that no elaborate and difficult valuations are needed. Income is also received by the taxpayer in the form of free capital so that no direct disturbance of investment in productive industrial enterprise necessarily follows upon the collection of tax upon income, though we must recognize that an increase of income tax reduces the spending power of the taxpayer and *pari passu* the demand for such utilities as he has heretofore been accustomed to purchase. The consequence must be unemployment and capital loss in the industries producing those utilities, and these must persist until the creation of a new effective demand by the advance

made in the scale of living of the minimum wage earners.

The great economic danger of all direct taxation, whether of capital or income, is that it tends to take away the motive for saving and to destroy the incentive to effort. Economic advance can only take place as long as all the productive capacities of the community are not restricted to channels that are immediately and directly fruitful, but at least to some extent are expended in development and improvement of lands, roads, transport, machinery and plant, education and science. The necessary provision for such expenditure must be by the apportioning of some of the consumable commodities at the disposal of the community to the support of individuals who are not employed in the production of such commodities, but in development work. In other words, development depends for its possibility upon saving. As saving is only possible to the individual or community by the curbing of the appetite for the enjoyment of utilities, it follows, if economic progress is to be maintained, that a successful social order must be such as offers sufficient inducement to some at least of the community to restrain their appetite for consumption of utilities. It is evident that the form of tax we have been considering if so applied as to confiscate all the surplus over a certain fixed maximum of either capital or income, would take away all incentive to acquire capital or income beyond that fixed maximum; and as the state must obtain the sum necessary to meet its liabilities, the maximum (all in excess of which was collected as taxes) would have to be constantly lowered, as no class in the community would exert itself to gain wealth to be applied solely to the paying of taxes. It seems reasonable to suppose that the constant operation

of this lowering of the maximum permitted wealth would ultimately cause the maximum to coincide with the minimum, and the whole community would be reduced to the standard of living of the minimum wage earner.

It is therefore evident that a fixed maximum of capital or income enforced by taxation is altogether contrary to the principle which demands that taxation should impair the productive capacity of the community as little as possible.* If taxes are to be collected from a group only of the community, and that group is to consist only of individuals whose wealth is in excess of a certain fixed standard, the tax must be so proportioned to the excess that the individual from whom it is levied will be allowed to retain such excess over the taxation line as will induce him to use effort and thrift to remain a member of the taxpaying group. The proportion of the taxed excess necessary to be reserved to the taxpayer to foster enterprise and saving can only become known by experiment and observation; but, speaking generally, if the number of taxpayers compared with the number of non-taxpayers is increasing for the same taxation limit line, taxation has not yet destroyed economic development. It is much more difficult to ascertain whether for a given sum to be raised in taxation the taxes are so levied as to impair the productive capacity of the community as little as possible compatible with the payment of a statutory minimum wage and the provision of an unemployment fund. A fundamental feature of this difficulty is that it is rooted in questions of temperament and character, depending as it does on the use which is made of the power to choose and direct the channels along which production shall operate, by means either of direct investment to promote economic

progress, or effective demand for particular utilities which diverts productive capacity towards the increased supply of those utilities.

The incidence of taxation might be such as would entirely destroy, for instance, the effective demand for £3,000 motor-cars, and the effective demand for utilities of a less expensive kind might be so far increased that the capital and labour heretofore employed in meeting the demand for such cars would be diverted to the making of farm tractors. If such incidence of taxation were the only means of providing for the minimum wage the problem would be far simpler than it is, but taxation might be so apportioned as to amount to the same aggregate and yet not entirely to destroy the effective demand for the most expensive utilities. Taxation might be so apportioned that the effective demand for the whole range of motor-cars between £300 and £3,000 would be reduced but not entirely destroyed for any of the range, with the same resulting increase of the effective demand for farm tractors. With equal political power in the hands of all members of the community, and the natural desire of all to conserve as far as possible their utilities in present or prospective possession by the use of their political power, it is reasonable to anticipate that power will be exercised in such ways as to so apportion taxation that it is collected only from the minority. But the fact that such a system conforms to common human conduct in given political circumstances is no evidence that it is in accordance with true economic principles. Different political systems may result in taxation of the poor by the rich, or of the rich by the poor, but the political merits or demerits of either system are no concern of the economist as such. His primal

business is the economic advancement of the community, and his judgment of rival political and social systems should be founded on an impartial estimate of their suitability to such economic development as will best further the continual growth of those differences which most distinguish man from other forms of animal life.

CHAPTER VI

ECONOMIC EQUALITY INVESTIGATED

WE have seen that a system of taxation which confiscated the whole of the surplus of either capital or income above a certain fixed maximum would, by taking away all incentive to individuals to belong to the taxpaying group, so operate as to reduce the wealth of all in the community to the standard of that possessed by the minimum wage earner; the maximum and the minimum would coincide and economic equality become general between the individuals forming the community. This is the result urged as most just and desirable by one school of socialistic thought and it may be here conveniently investigated from an economic standpoint.

As economic equality is the same in essence whether produced by a system of taxation or by the conscious adoption of socialism by the state, the economist's judgment will be influenced only by its economic merits or demerits and not at all by its origin. The question, then, we have to consider is how would economic equality, whether produced and maintained by taxation or as an essential feature of a political system, function in the problem of providing the means for the fullest enjoyment of utilities individually and collectively by the community.

To deal first with the individual who has heretofore been out of employment and supported by the exercise of the productive energies of others on a scale of living so far below that of the minimum wage earner as

prudence dictated was necessary to form an inducement to be a worker rather than an idler. As there could be no jealousy of the possession of utilities among the individuals employed, these possessions being equal, the only economic jealousy which could exist would be of the relative agreeableness or disagreeableness of the work done and of the relative number of hours employed in that work. The majority would therefore almost certainly decree that the hours worked should be equal, and the problem of the unemployed would be solved by a statutory obligation on every individual to work at a prescribed task for a uniform number of hours. Relaxation of this obligation, temporary or permanent, would probably be granted on much the same terms as in the army, where we have an example of approximately equal pay and rations combined with a high appreciation of leisure and a pronounced distaste for fatigue. The most unpleasant work, in as far as it was necessary, would be done to the same extent by every individual for an equal number of hours in the year, again with the army test as to physical capacity to do the work. For the less disagreeable work, if of such a character as to demand especial skill, proof would need to be furnished as to the possession of the necessary skill, and to all those who were in possession of it an equal number of hours would be allotted to be spent in the less disagreeable work, while in such cases as those where the work though relatively pleasant did not demand special skill, the hours to be spent therein could be equally shared by the individuals of the community.

We thus arrive at a further modification towards equality, equal hours of labour and those of equal degrees of unpleasantness being super-imposed on

economic equality, the whole development originating indifferently either from the operation of a system of taxation, or from conscious choice by the community of a social system to produce such equality as a desired end. It should be noted that the hypothetical end reached has not brought us any nearer economic liberty; the possession of utilities still depends on the exercise of effort to produce those utilities, and any economic improvement in the resources of the community still depends on the advancement of science, on invention and on saving, by which alone provision can be made to improve the means of production by new processes, machinery, and plant. The increase of efficiency in production is so important an object to the economist that it is imperative to investigate how any proposed economic system will function in relation to that efficiency.

In a system of equality such as we are considering, the obtaining by an individual of any economic advantage peculiar to himself, through the exercise of talents or industry beyond the average, is expressly excluded from the scheme of society. Possibly an order of merit, which carried with it no economic advantage, might without offence to the social system be bestowed upon individuals who were adjudged to have deserved well of their country, and the hope of this distinction might act as an inducement to the exercise for the common advantage of extraordinary mental gifts or energy.

Under what is called the capitalist system economic advantage has been accepted as the appropriate distinction for such individuals, and this has been proved by experience to be a sufficient inducement to strenuous and prolonged mental and physical effort and to the voluntary acceptance of hardship

and privation by means of which great advances in productive capacity have been made. The economist must therefore scrutinize very carefully any system which excludes so effective an inducement. He will ask for proof that the proposed social system would maintain incentives equally powerful for the development of efficiency in production. In addition to social distinction for extraordinary services, the sense of duty to the community is the only apparent incentive to the individual to make special efforts to increase the available supply of utilities, for in a large community the effect of any individual's idleness or industry on his personal share of the utilities produced and distributed in common would be so small as to be negligible. The nearest examples we have of industry being carried on under such conditions of equality are in the community life of monastic brotherhoods, and by military forces. In neither of those cases has there been any signal development of efficiency of production; in fact both have been roundly accused of being parasitic growths on the community, foisted upon it by superstition and by the unscrupulous exploitation of its ignorance. We have also the recent example of Bolshevism, where if we could assume *post hoc propter hoc* the result is not such as to recommend the principle to the economist. The first necessity under such a system, if the productive capacity of the community were to be maintained or developed, would be the sincere conviction that economic liberty is impossible in a world where utilities can only be produced by effort. To this must be added full recognition of the fact that man is his brother's keeper, and needs sufficient brotherly love to constrain him to effort and self-denial for the community. These motives would, however, be powerful

incentives to increased production under any social system, and do not appear to be necessarily weakened by the inclusion of economic reward resulting in economic inequality; and as all experience goes to prove that with the average man the hope of reward sweetens labour, it is surely greatly to be desired that as far as possible such 'sweetness' should be incorporated in the work of a world which yields its benefits only to labour and travail. It must be generally admitted that with man as we have known him in the past, as we know him now, and as he appears likely to develop, individual economic reward for individual effort and abstinence is a powerful incentive to such use of mental and physical capacity as is likely to increase production of utilities, and having seen that it does not necessarily weaken the influence of altruistic motives the economist must conclude that a system which postulates economic equality is not the best suited for the development of efficient production. The other and equally important object of the economist's research is the finding of a system which is most favourable to the exercise of efficient consumption, i.e. that every commodity and service should be consumed by, or rendered to, the particular individual who is at the time in the greatest need of such commodity or service, as thereby is secured the maximum utility of consumption.

In a primitive condition of society where the utilities available for distribution are simple and of primal necessity, a system of economic equality appears to be the most efficient for the purpose of consumption. For instance, if the available supply of food were insufficient or only barely sufficient for the community's needs, it is evident that any economic inequality giving one individual the power of making his demand

for the means of subsistence more effective than that of his fellows, would be likely to operate so as altogether to deprive or disastrously curtail supply to those in an inferior economic position. This has been generally recognized in times of abnormal stress caused by war, famine, blockade, shipwreck, or convulsions of nature; wherein it has been customary for the community to control all available supplies of food, to make illicit hoarding penal, and to distribute the supplies on a system wherein the measure of an individual's need constituted the only demand permitted to become effective. The efficiency of consumption under a system of economic equality extends beyond the distribution of food supplies in periods of scarcity. The basic needs for clothing and shelter, to the extent that these are necessary for the preservation of the community in health and vigour, should be distributed in such proportion that, as long as, and to the extent that, any of its individual members are in such need as to impair that health and vigour, none should be allowed to command supplies in excess of the quantity needed for that purpose; and this condition is fulfilled by a system of economic equality.

Where, therefore, society is in such a stage of development, or in circumstances of such abnormal stress that its productive capacity is insufficient or only barely sufficient to provide for its basic needs for food, clothing and shelter, a system of economic equality is the most efficient for the distribution of the utilities necessary to supply those needs. This is to say as much as, but no more than, that in a community where some are not in enjoyment of the minimum wage, it is conformable to the principles of economic distribution that any individuals who command utilities beyond the minimum wage standard,

should by taxation or other means have their command of such utilities reduced to the extent necessary to provide the minimum wage. It will, however, be generally agreed that the commercial nations have attained such a stage of development that if all their productive energies were directed to the producing of utilities of such primal necessity as were fitted only to supply the elemental needs of the community for food, clothing and shelter in their simplest forms, these productive energies would be not only amply sufficient for this limited task, but if efficiently, industriously and thriftily employed, to produce also a large volume of additional utilities, the possession of which is ardently desired as soon as the primal needs for existence are satisfied.

Our investigation must, therefore, extend to the question of the efficiency of a system of economic equality for the distribution of utilities other than those of primal necessity; and in examining utilities of this second order, necessary for man as man, these objects of his "admiration, hope and love," we at once see that they have many properties altogether different in kind from those elemental utilities which appertain to the trough and the sty. Many of these secondary utilities capable of giving contentment to aspirations rather than to appetites are incapable of distribution by division, so that if not sufficient in number to provide a complete unit for distribution to each individual of which the community is made up, they cannot in the nature of things be distributed in conformity to a system of economic equality. Of this we have a classic instance in the judgment of King Solomon when the demand was twice as large as the supply, and the principle of economic equality constrained the king to declare that, in conformity to that

principle, the particular utility for which there was such active demand should be divided between the two claimants.

The utility being in the form of a living child made the practice of economic equality impossible, so the king in the spirit of the true economist having ascertained where it was likely to afford the most contentment, and to have its intrinsic and peculiar value most carefully preserved and developed, decreed that it should be distributed unequally to attain this truly economic end. This classic example of the distribution of utilities is typical of another principle which, though not generally accepted by the advocates of economic equality, has obtained a very considerable measure of support from schools of thought antagonistic to socialism. The principle referred to is that where a utility has been produced by the labour and travail of an individual, the individual who has borne the labour and travail has a prior claim to the enjoyment of the utility. From the point of view of the economist it must be admitted there is much to say for such a principle of distribution as being likely to prove an incentive to increased production. There was a third way in which it appears King Solomon might have distributed the utility of which the supply was not equal to the demand. It might have been given into the joint possession of the rival claimants, but that would have been so to change the elemental nature of the utility as to render it incapable of supplying the peculiar character of the demand, and a similar depreciation of value would have attended its being given into the possession of each of the rival claimants for equal periods of time. The king's judgment, therefore, commends itself to the economist as one which distributed the utility in the condition of the

greatest intrinsic value, a most important consideration whether referred to the distribution of primal utilities such as eggs whilst they are fresh, or those of the higher order, objects of "admiration, hope and love," where their highest and peculiar value can be enjoyed in the fullest contentment.

Many protagonists of socialism would urge that although the king's judgment might be in accordance with economic law, it offended against the higher law of social justice which demands the abolishment of private property in general, and particularly regards the child as absolutely the property of the state, and the admission of any private right in the child as of the greatest danger to the most important of the state's paramount interests, i.e. its development as a social community upon lines of economic equality. This is a question of morals, and as such cannot be decided on economic lines. It is on the same plane as the feeling of jealousy and the sense of suffering injustice which we may suppose would rankle in the mind of the unsuccessful claimant for the child; it constantly exists in the presence of unequal distribution of utilities, and from it springs the bitterest antagonism to the present order of society. Against this resentment of supposed moral injustice it is of no avail to urge conformity to economic efficiency, and however incompatible with the latter economic equality may be, the socialist will urge that the moral superiority of his system altogether outweighs any economic advantages which the system of individual ownership may possess.

Not to deal with this claim to moral superiority would be to evade the most important issue between socialism and the existing order of society, or any modification of that order which should fall short of

the establishment of economic equality. Morals are relative to the creature of which they are the attribute, and to the circumstances in which the creature is placed. Those of the wolf must be wolfish if he is to be a perfect wolf; those proper to the lamb are not to be desired for the watchdog guarding the sheep fold; the modest silence and humility moral in times of peace, Shakespeare tells us, are immoral in the din of war. It may be predicated of almost any action that its morality or immorality depends on the identity of the creature by which it is performed, or the conditions under which it is done.

Man, it has been previously stated, is only man in so far as he is different from the other members of the animal kingdom, and the morality proper to man can only be exercised in circumstances and by conduct which display this difference, and the highest morality for man is that wherein this difference is manifested in its most extreme form. One of the most marked divergences of man from the rest of the animal kingdom is his capacity for a sustained and widely diffused altruism, and a system of economic equality inasmuch as it diminished the motives to jealousy would deprive man of the opportunity of rejoicing in the good fortune of those members of the community who were in the possession of utilities which were denied to him. The same system would also preclude the voluntary practice of self-denial in those ways which are only possible where there is difference in economic position. Another distinguishing feature of human morality is the laying of plans for achieving far-off personal economic ends. The more remote those ends the greater the self-denial, abstinence and patient industry which the endeavour to attain them calls forth, and the greater becomes the difference of

the morality exercised from that common to other members of the animal kingdom. Man is also peculiar in his capacity for enjoying the possession of an unlimited variety of utilities, although the capacity is of extremely varied extent, ranging from barely more than the appetites common to the higher forms of animal life to passionate delight in possessions altogether valueless to the animal in man. Such delights form, therefore, essential moral sanctions, distinguishing man from the brute creation, and to the extent to which these are made impossible by a system of economic equality that system is destructive to human morality. It may be urged that a system of economic equality by taking away all incentive to individual industry, except the moral sense of duty to the community (inasmuch as the effect which any individual's exertions would have on his personal share of the wealth of the whole community would be so incalculably small as to be altogether outweighed by the pleasures of idleness) makes a great demand on the moral sense and necessitates a lively response to this demand as a condition of the community's existence. That contention is perfectly valid, but the question is whether the morality it demands is morality proper to man. Certainly it is not peculiar to the human race, for it is displayed in its most highly developed form in the community life of insects, of which the bee and the ant afford the most perfect examples.

With these, this complete devotion of the individual to the community is generally supposed to be instinctive rather than conscious, and it makes no demand on human morality specially, and is therefore no incentive to the development of man on the lines of his own peculiar divergence from the rest of the animal kingdom.

It has indeed been more perfectly developed by insect as distinguished from human morality, extending to the evolution of sexless toilers working to maintain the community's life. It appears, therefore, that a system of economic equality is as immoral for man as it is uneconomic, and to the extent that the socialist postulates such a system, socialism is antagonistic to the principles of life on this planet, which has ever proceeded by the continual development of variation to permanent and increasing difference, as it has passed from the unity of protoplasm to the myriad forms of life inhabiting our modern world. All socialists do not postulate absolute economic equality as an essential feature of their system, and in practical experiments this condition has been more honoured in the breach than in the observance. It is even stated—with what degree of truth I do not know—that not every individual in Russia has equal command over utilities, but that utilities are rationed in proportion to merit, those who display an extraordinary degree of virtue being awarded economic privileges beyond those common to all the individuals forming the community. It appears, however, that if such disparity is permitted for any reason, the logical basis of socialism is destroyed! It ceases to differ from other forms of order! The merits recognized and specially rewarded may not be the same as where governments are not socialistic, but there must be some test for discovering merit which is special, and where there is a valid test some of the subjects to whom it is applied must be rejected, and success is made the result of competition, in flat contradiction of the theory on which the claim for social revolution is based. Indeed, in such a case a new social order emerges but with no new principles, and there is only

a change in the personalities administering it and in the tests by which competition is decided. A socialism which demonstrates no new principle offers no field for theoretical analysis; it is entitled to the fervent efforts of its partisans to make it dominant, but it can only commend itself to the impartial by the relative beneficence of its achievements in the life of the community whose affairs it administers.

CHAPTER VII

THE STATE AND PRIVATE PROPERTY

AN enquiry into socialism would be incomplete which neglected the question of morality involved in the confiscation of what is commonly called private property. There are, it cannot be denied, many men of goodwill who believe such confiscation to be robbery, offensive to that ideal of righteousness of which it is man's peculiar privilege and duty to be the exponent, as in the natural world he is the only being so far developed as to be able to conceive of so exalted an idea. There is a conception of the rights of property which regards them as not only sacred and inviolable, but as so absolute and complete as to give full sanction to the claim to do what one likes with one's own. To such a conception restriction is oppression and socialism plunder. A claim so absolute, whether allowable or not in certain forms of property, is so far-reaching in its consequences when advanced in communities whose economic development has reached the stage where the proprietary rights of individuals condition not only their own lives but directly and indirectly the lives of all the other members of the community, that the community is compelled in self-defence to scrutinize most rigorously the title under which the property is held. History teaches us that mankind has in the past held widely divergent convictions as to what constituted a valid title to absolute ownership, and has by means of the judicial authority vested in its government exercised a determining jurisdiction as to what were and what were

not allowable subjects for such proprietary rights, and the factors which must be present to establish the validity of a claim to exercise them. One of the most commonly admitted subjects for private ownership with the fullest and most unrestricted proprietary rights is that of the individual in his own life and limb; yet his title has not always been accepted. In many states parents have been invested with such proprietary rights in their offspring, and in the case of slaves the proprietary rights over body and soul, as far as the latter could be made a subject of conveyance, have been vested in owners other than themselves. States have also invariably claimed under circumstances of national danger to override their people's private rights to life and limb, and have enforced military service for the safety of the community. Under such circumstances also the title to private proprietorship in utilities has been held to be inferior to the paramount title of the state, which has by forced dispossession obtained the means to achieve its defensive or aggressive purpose. The title to private property in land has commonly been held to be only a title to a more conditional ownership than that of commodities, and has entailed liability to public service, but the tendency in later times, and particularly in such countries as the United States of America, has been to allow to conditional ownership in land closer conformity to that recognized in the case of commodities. Responsible governments have always exercised the power to take from individuals private property for the purposes of the state; indeed, it seems that the title to ownership has always been regarded as conditional and limited by the overlordship of the state, but absolute as between individual and individual. There appears to be sound reason in

equity for this limitation of private proprietary rights, for the citizens have, as a rule, looked to the state to defend those rights against encroachment or ravage, and if that responsibility is placed on the state it may justly take the resources with which to discharge the responsibility from those for whom the responsibility is accepted. It may be urged that this is true for purposes of police and the maintenance of military forces, but is not true when extended to the confiscation of the property of the industrious and thrifty in favour of the idle and extravagant, and that such confiscation is plunder to which neither the power of the state nor its laws can give the character of justice. Yet it is not possible to plunder an individual of what he has never possessed, and the state has never admitted proprietary rights except as subject to the reservation that its own were inalienable and paramount. It appears, therefore, that however impolitic the state may be in exercising its supreme title to the property within its jurisdiction in favour of the idle and extravagant, and to the detriment of the industrious and thrifty, it is but dealing with what is and always has been its own. The question is one of policy, and should be decided by the political sagacity of its government, on which in democratic states every individual exercises an equal influence. Most important, therefore, is the training of the lieges to be wise and sagacious, and it follows that the education of youth is one of the primal services which it is the duty of the state to render, and which is of at least equal importance with that of police as a safeguard to the limited proprietorship enjoyed by individuals whose possessions have and can have no other effective security but that which the state guarantees.

The most active and continuous educational force

is environment ; it commences before birth and continues as long as life lasts, and as the supreme need of the state is for contented, loyal, strong and wise citizens, the exercise of its paramount title to property of all kinds in wisely conceived measures to create a fit environment, to advance the contentment, loyalty, and wisdom of its citizens, is the first of its duties.

This environment cannot under the present system of society begin to be approached without the enactment of a statutory minimum wage.

CHAPTER VIII

ECONOMICS AND MORAL FORCES

WE have seen that economic equality, however produced or maintained, is antagonistic to economic efficiency, and equally so to the morality proper to man, i.e. the development of those peculiar racial features in which he diverges farthest from the other members of the animal kingdom.

Rejecting, therefore, economic equality as the solution of the problem, let us reason together on the steps proper to be taken, in a community of individuals unequal in their possession and control of economic products and forces, to improve man's environment, bringing to it "sweetness and light," and so forwarding his development in so much of his life as lives by "admiration, hope and love." To the extent that wise economics may provide the means to forward these moral ends which are seen to be the most important purpose of the life of man—he being the organism which as a result of countless ages of development has acquired a capacity beyond that of any other form of animal life to manifest these moral attributes—economics must be a moral science, and our investigation must extend to the use of economic factors to advance these moral qualities of "admiration, hope and love." We will consider the first of these—admiration. This in man as we know him has a fatal opposite, jealousy, so fatal indeed as utterly to destroy the capacity for admiration and to pervert all that should feed it to monstrous increase of its own malignant growth;

the growth which expresses itself in varying degrees of malignancy, from that of a grudging spirit of deduction to a passionate hatred active in the infliction of every form of malevolent injury upon the object of its resentment.

So strong may be and often is jealousy, and so fatal in its effects on man's evolution, that the extent to which a people has either consciously or instinctively used any and every means adapted to eliminate its influence has been the factor which has determined the dignity of that people in the plane of evolutionary life. Unless it be kept under some restraint combination is impossible. By it the largest and best equipped armies may be rendered impotent. It has lost countless campaigns, robbed the years saved from war of the blessings of peace and maimed the feet of progress. To-day it stalks through the land feeding upon and feeding injustice, strong with the garnered evils of a thousand years to strangle the blessings of the dawning era in their birth. It is small matter for wonder that many, recognizing the baleful effects of jealousy in man's history, should choose the morality of the bee and the ant, and seek to escape from as much of the curse of jealousy as is rooted in unequal possession of wealth, even if escape be at the cost of all such food for admiration, all such delight of the eyes as the splendours of wealth joined with genius and art makes manifest on the earth. But this is a retrograde solution. It would strip the wings of the eagle and share its feathers amongst the fowls of the barnyard, spread the song of the lark evenly over the croak of the raven, forbid marble and colour to Michael Angelo because of the scarcity of bricks and wall paper, forbid the building of airships that all may have paper and string for kites, decree that none should

possess a Rolls Royce in order that everyone may have a wheelbarrow. But jealousy means more than this—it cares not for adding to the supply of wheelbarrows, but it cares most vehemently that none should possess a Rolls Royce. The science of economics tries to balance the utility of the Rolls Royce against the utility of a wheelbarrow, and is concerned in supplying both in the fullest measure possible to the community's need. Inasmuch as discontent with the distribution of wealth is caused by jealousy, and seeks to express itself by the impoverishment of the wealthy, it is uneconomic and contrary to the morality proper to man. On the other hand, all discontent which has its root in conviction that the distribution of wealth is not that best fitted to enrich the life of the community by providing the constant food for its "admiration, hope and love," is at least evolutionary discontent, and to the extent that it expresses itself in wisely ordered effort to improve that distribution is as noble in conduct as it is pure in motive. The enquirer in seeking to preserve the present and also the evolutionary benefits attending upon the existence in the community of natural and acquired physical, mental, or spiritual superiority, as also those utilities which are in themselves so rare and costly as to be impossible of production in so large a quantity as to supply the demands of the whole community for their enjoyment, must depend for his success upon finding means to secure that excellence is the food of admiration, and that from it aspiration derives its spur, and that it is not perverted to the nourishment of jealousy fatal in its influence upon the evolution of the race.

History and observation teach that at different times and in varying degrees and circumstances excellence

has achieved its proper end with more or less fallness. The institution of chivalry aimed at securing that honour depended upon the honouring of the honourable; the brave and strong who had only his courage and strength was but a doughty churl, but if he admired the brave he had the beginnings of honour, and if he loved his opponent for his bravery and strength he might aspire to the stature of a perfect knight. If he dressed the wounds of his rival, nursed him to health, nourished him to strength, armed him for the field and fought him fairly on the appointed day he was approved a perfect gentleman, who judged by the standard of the jealous is but God's own fool. Religion, to the extent that it taught and could move men to rejoice with the rejoicing, to weep with the unfortunate, to love one's neighbour as oneself, and that greatness was measured by service, burnt up jealousy in the fire of a divine passion. But chivalry is but the fashion of a far off day, and religion we are told, but a fable cunningly devised to rob the poor of the luxury of hating the rich. The Red Flag has supplanted the Red Cross, the Rock of Ages is submerged in the waters of bitterness, and the wise student of the gospel according to Marx has no use for the Gospel according to John; so the economist must look elsewhere for the sanction to urge the community to follow in the path of man's proper evolution. There still remain some spheres of activity in which to some extent admiration attends upon excellence; great singers, actors, artists, musicians and scientists are sometimes saved from jealousy of each other's fame by admiration of their talents. Then we have the great army of sportsmen, wherein a man must play the game, and to be a bad loser is to be a bad sportsman, though he who does not play to win is no sportsman at all. It exists only to

discover relative inequality and finds its chief delight in exaltation of the successful competitor. The aspirant for honour in the world of sport must look to have his every mistake and shortcoming proclaimed far and wide; and he must admire the prowess of his successful rival or suffer contempt to be added to the disappointment of his proved inferiority. It were well if we could from the world of sport learn how to exclude jealousy from the social system.

Evidently it is not necessary to exclude inequality, to exclude jealousy, neither is competition the root from which it must inevitably spring, for the world of sport exists but to make inequality manifest by increasing the strenuousness of competition till failure is forced upon the unsuccessful, yet the brotherliness and good fellowship of the company of sportsmen is proverbial, so there must be conditions under which both competition and inequality may exist to the nourishment of admiration rather than jealousy. On the introduction of these conditions into the social system its betterment depends. They will probably be found the same as were sought for in chivalry and proclaimed in religion though called perhaps by different names. One of these conditions without which no sport can exist, and without which all sport which takes the form of physical conflict becomes brutality, is fair play; in chivalry it was called honour, in religion it is called righteousness.

Then let the upholders of the present social system see to it that if it is to discover and maintain inequality it is by methods which are fair, honourable and righteous. There is no game without its rules, the rules are made by the players of the game, and the fairer, the more comprehensive and the more rigorously applied they are the nobler is the game. When chivalry had its

laws conceived and enforced in honour, then none but the dishonourable could be jealous of its heroes. Religion, with its rule enjoining that the greatest should serve the least, suffered not from jealousy, although one star exceeded another in glory. Let us turn our thoughts back to the labour orator who proclaimed that the workers had achieved political liberty and would employ this to attain economic liberty. The latter is self demonstrated as impossible in a world in which effort is the price appointed to be paid for life. Some of us have no great liking for that word "liberty"; it belongs to so dubious a company; it is first cousin to licence, goes hand in hand with licentiousness, and has so often foregathered with anarchy. Cain claimed its prerogative to relieve him from responsibility when he asked if he were his brother's keeper, and it is ever the plea of him who claims to do what he likes with his own. The players of the game who are called to appoint the law-makers for the game do not achieve liberty, but the responsibility of power to ensure that the laws shall be such as will clearly demonstrate the superiority of the excellent, encourage all degrees of talent, see that the learner learns what is helpful, and that all things are so ordered that the standard of play is always rising, that jealousy is driven out and kept out of the brotherhood of players, overwhelmed in the enthusiasm of good fellowship. If this aim, and a considerable measure of its achievement, is not too high for the "flannelled fools at the wicket, muddled oafs at the goal" is it impossible to the high-brows whose intellectual eminence has outgrown the law and the prophets, pricked the beautiful bubbles of Plato, put away the childish fancies of the Kingdom of Heaven, knows chivalry as a fantastic dream, born of privilege and

luxury, and is wise with all the wisdom of Haeckel and of Marx, passionate with the righteous fury of Lenin and Trotsky?

Perhaps it is impossible to the intellectual, but thank Heaven the intellectual are still in the minority, and are not likely to have much to do with the promulgation of laws in the immediate future. The national constituency is the same, as provides the law-makers for the national games, its electors want fair play and team play, they know that heavy weights should not box for the light weight belt, neither should millionaires lift the minimum wage, yet they like a league match, and would not break up a cup team to share its players amongst their workshop fifteens.

They loathe the selfish player, and will have none of him who does not play for his side, and, above all, they know that as a selfish captain in play can wreck the finest team, so in work a selfish captain can wreck the finest industry, yet neither team nor industry is the property of its captain, though the success of both depends upon his competence. So they will not seek to abolish captaincy but to devise tests to ensure that it is unselfish and competent, serving the team and community with singleness of purpose, to the advantage of each in its proper field of achievement. The world of sport has additional machinery which it uses to the attainment of most important ends, the machinery of the handicap. Every committee of a golf club knows that the handicap is the most powerful engine for raising the general standard of play and promoting good fellowship amongst its members. By it the minus fifteen man is enabled to join in friendly companionship with plus four, stimulating him to improve his game by the fear of defeat and finding his own incentive in the hope of victory. But the handicap must be

fair and the handicapper instructed, or comradeship will be eaten up of jealousy.

The social system has its machinery for handicap in taxation, which if used fairly and wisely for the benefit of the community will increase the spirit of comradeship amongst its members, giving hope to those who would otherwise be hopeless, and spurring to renewed effort those who would idly repose on their assured position. Let the electors look to it that this is done. If it is possible in the parliament of the golf club it cannot be impossible in that of the nation. The principle is the same, for as the handicap is for the benefit of club life and individual chagrin thereat makes a bad sportsman, so resentment of taxation, if for the benefit of national life, makes a bad citizen. As being a good sportsman does not depend on strength or expertness but on playing the game fairly in accordance with the rules, unselfishly and without jealousy in a spirit of true comradeship, admiring all excellence, and doing the utmost in his power for the team, so being a good citizen depends on the same qualities, and all men of good will must unite in advancing them.

Righteous laws for the state, the purposes to which taxation may be justly applied, and the incidence of its levy, may be summed up as all such laws and purposes as advance man on the lines of his own peculiar evolution, the development of the moral qualities of "admiration, hope and love"; the incidence of taxation should be such as, whilst preserving as far as is compatible with the physical and moral health of the community all that is worthy of admiration in rare and splendid utility, should so operate as to handicap fairly the possession of utility in every form or measure, to convince every citizen that he has an equal

share in the righteous hope of advancing on the lines of man's proper evolution, and of entering into his reward step by step as he advances. The parliament of the golf club can give the limit man the rational hope of winning the cup, and thereby make comrades and friends of the extremes of its membership if only they be good sportsmen; By the same principles, as wisely and honestly applied, the parliament of the nation may make comrades and friends of its richest and poorest citizens if their standard of citizenship is equal to their sportsmanship. If it be not, let good citizens work to make it so, by the same means as sportsmen improve their games, by just laws faithfully administered, directed with singleness of purpose to the advancement of the community, and by taxation to provide all that will help that advancement, levied with a fairness that gives to all men hope, yet does not so confiscate from the wealthy as to make impossible all magnificent productions of art and industry that good citizens should admire.

Our own times are the best of the times that have been, richest in opportunities for good citizenship; the worst of the times which shall be, for never before has every citizen had equal powers in framing the laws of citizenship, and all the times which come after will inherit the fruit of our labours.

On the statute book have been placed the Factory Acts, redeeming children from the status of slaves and women from that of beasts of burden; the Education Acts, which though perhaps incapable of educating, because we have not yet discovered what education is, at least marked the recognition by the state that education as far as it was understood was one of its proper functions; and the Health Acts for preventing physical infection. Some would pass acts for preserving

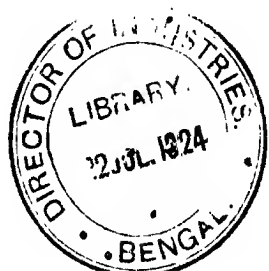
moral health, "if we could only decide what constituted infection malignant to morals." It has been reported from Russia that the epoch making discovery has been made, that this infection is in freedom of speech! It was previously reported in Italy to be blasphemy that the world goes round the sun; Pilate was called upon to diagnose it with results that have not redounded to his honour." On the whole, therefore, the citizens are perhaps wiser to wait for further light and to go slowly in the matter of Morals, Health of, Acts.

We had the Married Women's Property Act, when the group of the community to whom the marrying of heiresses was such a remote possibility as to offer small opportunity of a successful career was able to exert its influence on legislation. Last, but by no means finally, for the laws which shall come must grow out of the laws which are, in the Old Age Pension and the Insurance Acts the world-old query of Cain was answered in the affirmative, and the soul of the people of Britain by its King, its Lords and its Commons declared that man is his brother's keeper.

In these latest and best of all times man has yet known, the British people has striven to make its taxation just in its objects, and fair in its incidence; it has levied it for purposes which make for man's proper evolution, the increase of his divergence from the other forms of animal life, and its attempts to place the incidence of its handicap so as to advance the community in "admiration, hope and love," are worthy of Messrs. Wetherby or Admiral Rouse. What though some of us think our whisky and beer should be easier come by? Many think that we ought not to be able to get them at all, but, happily, the most are sure that good fellowship lies in the sweet reasonableness

that allows the use of whatever Mother Earth provides to make glad the heart of man.

Much then has been done by our laws to further the advancement of the community on man's peculiar evolutionary path, and our political system is such that the laws are always approaching to a full and correct expression of what in the convinced belief of the community is justice and makes for righteousness. This is so generally recognized as true that we find to-day very little discontent with our laws, and all the fiercest resentment and bitterest controversy rages around our social conditions and the economic system or lack of system by which these social conditions are believed to be produced.



CHAPTER IX

THE TRUE LAW OF WAGES

It is no extravagant statement that the wealth produced by the community could be easily three times greater than it is if we could get such a general belief in the justice of its distribution as we have in the justice of our laws. It is a strange thing that whilst we are all convinced wages should be fair, there is not any commonly accepted standard, rule, or measure, by which their fairness or unfairness can be decided, either in an individual case or even as a general proposition. Amongst the earlier economists the Ricardian—so-called—law of wages, i.e. that "the natural rate of wages is the least that will support the worker and enable him to perpetuate his kind" received unchallenged assent. It might be the natural law of wages, but it was in flat contradiction to the law of man's development as recorded in its history on our planet, wherein man's constantly increasing divergence from other contemporary forms of animal life is the most outstanding feature most certainly recorded.

If Ricardo's be the law of wages, then wages are fatal to man's proper evolution. The whole school of socialist philosophers recognizing this logically demanded the abolition of wages, and whilst the economist and the socialist were spinning theories about two non-existent and mutually abortive worlds, the men of the world which was real were left to spend their lives in warring conflict instead of productive industry, and their hearts in hatred instead of entering

into that "admiration, hope and love" of which millions of years of evolution had unfolded the possibility. Professor Jevons in 1871 announced the true law of wages that "the wages of a working man are ultimately coincident with, what he produces, after the deduction of rent, taxes, and the interest on capital," and Professor F. A. Walker, of Harvard, in 1876 wrote that "wages are in any philosophical view of the subject paid out of the product of present industry, and hence, production furnishes the true measure of wages." Both these writers were regarded as economic heretics for their denial of the Ricardian theory which had held unchallenged sway for forty years, and although there is to-day common acceptance of their fundamental conclusions, which should have been epoch-making in the relations of capital and labour, failure to recognize their importance, and to apprehend the corollary that wages are part of the profits, has allowed anarchy to persist in the Industrial World with untold loss to the community. The fact that wages are commonly paid at shorter intervals of time than those at which the remaining portion of the profit is distributed, tends to obscure their essential identity of character. We speak of profits after deducting wages, but wages are an interim dividend paid out of assumed increase of value produced, and as such, they are as much a part of the profits as is the final dividend distributed after the total increase of value has been ascertained. If the interim dividend of ordinary parlance absorbs all the profits produced there can be no final dividend, but we do not therefore call the interim dividend part of the cost of the manufacture, and it is just as incorrect to call wages part of the cost even if all the profits produced were paid away in wages. From the point of view of the investors

of capital in industry, wages are part of costs, but not so with reference to the community as a whole, to whom the matter of supreme importance is that for the given combination of capital and labour employed, the production of utilities should be made the greatest possible. It is the capital invested and labour employed which are the cost of production, while the increased value produced constitutes the profit, and to anyone but the investors and workmen concerned, other things being equal, it is immaterial how the profits are shared between the investors and workmen, the two partners who have produced them.⁶

The most active cause of destructive strife in the economic life of to-day is the failure to realize that all production is partnership production, that all which can be shared by workmen and investors together is the increase of value produced by their partnership, i.e. the profits, and that these rise and fall with the efficiency and productiveness of the industry. There is no doubt that the fallacy that wages are part of the cost of production is very commonly held with most disastrous results to the community, and that a large superstructure of logically deduced theory and practice is based on this fundamental error.⁷ It is also obvious that the more logical the deduction from a false premise the more contradictory it must inevitably be to essential fact, and if the fact be one which concerns more nearly than any other such important matters as the income and cost of living of every member of the community, it is one that has more than academic interest, being no question of correct terminology, but of the essential nature of the material means by which the people live.⁸ Fallacies commonly have their origin in and maintain their currency by the strength of their appeal to the self-interest of those by whom

they are accepted as true; it may be that it is an ignorant and shortsighted conception of self-interest to which they appeal, but beliefs which are founded on ignorance or narrow views are, as a rule, held with the greatest tenacity, and where their denial would entail loss of property or privilege are supported with the utmost intensity of passion. The purpose for which capital and labour are applied to industry is to increase value, and unless the result of the joint application is an increase of value, capital and labour are wasted, the interim dividend paid to the workers as wages is paid out of capital, the investor suffers loss of capital and profit, and the community is impoverished by a part of its productive resources being unproductively employed. Supposing the particular industrial activity produced some value, it is evident that if the labour and capital employed to produce this were reduced to such an extent as to be no larger than that employed in other industrial activities in producing equivalent utilities, the venture would have been profitable instead of unprofitable to all concerned, which is but another way of saying that by reducing the cost of production an unprofitable industry can be made profitable to the investor, the workman, and the community. The interest of the community in every industrial venture is the most comprehensive of the three, and therefore the community forms a third and most important partner together with capital and labour; indeed, the interest of the community is the only one of the three the advantage of which can be forwarded by increased efficiency alone, and therefore it is the interest which the economist should study to further, and which it is the province of the statesman to protect against loss and detrimental contrivance. It is obvious that

a combination of labour and capital in the monopoly production of an article of great utility might by studied inefficiency so reduce supply in the presence of active demand as by raising prices to give to the industry a pseudo profitableness increasing with the cost of production, and taking its gain out of every loss it could contrive to inflict upon the community.

A combination able to restrict the supply of labour in a particular industry might also secure to the workmen increase of wages, up to the point that the share of the profits paid as wages absorbed all but the barest margin of the increased value produced by the enterprise. This, however, as long as the efficiency of labour was maintained, would not increase the cost of production, although the labourer would have appropriated the joint earnings of labour and capital, thereby dispossessing the investor, and would by so doing prevent the investment of any additional capital in the industry, and also cause the withdrawal of that already invested so far as such withdrawal might be possible. It is evident, therefore, that the fallacy that wages are part of the cost of production is one that the investor is particularly interested in having accepted as widely as possible, for thereby he obtains a sanction for the payment of lower wages, which, supposing the price of the product to be maintained at the same level, adds to the yield of his investment, and if he pass on to the consumer by means of a reduction in the price of the commodity some of the gain he has made by reducing wages, the consumer also is interested in the maintenance of the fallacy that wages are part of the cost of production. The community, however, is only interested collectively that production should be so ordered that the utmost increase in utilities should be secured by the use of

the skill, the energy and the capital available, and the community is therefore a partner in the threefold combination, which were it sufficiently informed of the facts in any question concerning the apportioning of the increased value created by the employment of labour and capital, could be relied upon to make a just division of that increased value so manifestly fair as to be acceptable to employer and employed alike.

That this may be possible the community must have its representatives, with a deciding power on every council, however constituted, for the fixing of wages, so that profits may be fairly shared between labour and capital, and the council must have access to the fullest and most reliable records and accounts connected with the industry in order that a just division may be made. Already for assessment of income tax the financial history of every person and every joint stock enterprise, must be disclosed to the Commissioners of Inland Revenue in the interest of the state, in order to secure the fair apportionment of taxation, this having been adjudged by the legislature to be an object of such importance as to warrant compulsory disclosure of financial conditions. It is only a development of the same principle to extend this national exercise of investigation for the purpose of adjustment of wages. The development of public joint stock companies with the compulsory publication of their balance sheets and profit and loss accounts, which has now extended until there is no field of commercial activity in which they are not represented, has provided a source from which councils could obtain the data on which to base their awards. Doubtless in many cases company accounts are presented in such a form as to obscure, as far as is possible with

the performance of their statutory obligations, the real conditions under which they are operating, but the essential purpose of the Companies Acts was to assure to the community the safeguard of the publicity sought to be evaded, and the interests of commercial morality alone demand that the measures intended by the legislature to secure publicity should be made effective by supplementary legislation, and this quite apart from the importance of such data for the fair allocation of the profits of industrial enterprise. There is no doubt that the capitalist engaged in an exceptionally profitable industry may be personally interested in keeping its prosperity secret, both from the workmen employed therein and from the public; but it is to the interest of the community that the earnings in every branch of industrial activity should be matter of public knowledge in order that capital and labour may be directed to the most profitable spheres of employment. A twofold advantage would accrue to the community by this transference of capital and labour to more profitable employment—one the greater productiveness of its industrial resources, and the other a reduction in price of the particular commodity due to the competition caused by the increased supply available. One of the most fruitful causes of labour unrest is the feeling that it is hoodwinked and exploited behind a cloud of secrecy (maintained for its undoing) so that it is apparent that the community, the economist in the interest of efficiency, and the exchequer in the interest of securing equitable taxation, are deeply concerned that absolute publicity should be given to the financial conditions obtaining in every sphere of commercial activity. Whatever may or may not be fair wages, the first step necessary to arrive at their definition is to provide effective councils

on which employer, workman and community are represented, the latter with a preponderating voice because its interests are all in the direction of economic efficiency, and full access must be given to correct, comprehensive and lucid accounts of all financial matters obtaining in the particular industry under consideration. Such councils would then be so constituted and equipped, that the decisions at which they arrived would have so unimpeachable a sanction as to command the support of all unprejudiced men of goodwill; and the problem of fair wages, if not finally solved, would be always approaching more nearly to a perfect solution by reason of regular peaceable adjustment instead of ca' canny, lock-out and strike, which must always waste the resources of the community and maim its activities.

The principle of collective bargaining for adjusting wages is now so universally advocated by labour leaders, it has obtained so thoroughly the convinced adherence of the great mass of workmen, besides a very considerable acceptance amongst employers of labour in all industries wherein large numbers are employed, that the time has come when wages may quite conveniently be adjusted by councils for particular trades, with a reasonable hope that, provided the rate fixed were manifestly fair, the awards of such councils would be received with a sufficient measure of consent to prevent conflicts disastrous to employers, workmen and the community.

* The crux of the matter lies in the provision "manifestly fair." This provision is impossible if there is any secrecy or concealment of the earnings in the particular industry under consideration, and the council's judgments can only be reasonably arrived at if fallacious assumptions of the nature of wages are excluded from

the minds of its members, so that it is of fundamental necessity to obtain general acceptance of the truth that wages form no part of the cost of production. That the contrary assumption has been and is so largely held even by unprejudiced enquirers, makes exhaustive investigation imperative if the true nature of wages is to be established as a generally accepted truth. To this end I would consider the facts which are commonly held to support the fallacy. It is evident that if a certain industry needs for its operation the use of a steam engine, the coal burnt in generating the steam forms part of the cost of production, again if instead of steam power, horses were used for the same purpose, the forage and stabling of the horses would rightly be included in the costs. One might go further and admit that if the power were furnished by slaves, the food and housing of the slaves would be correctly included in the costs. We have in this last instance arrived at conditions under which human beings are living in exact economic conformity to what Ricardo formulated as the natural rate of wages. It is evident then that any payment in the name of wages below the Ricardian rate, and up to and including that rate is part of the cost of production, i.e. the maintenance cost of feeding and housing the same number of slaves. This is part of the cost of production, and any reduction therein reduces costs.

Horses and slaves, however, are both equally the chattels of their owners, and commonly as a form of highly valuable property carefully nurtured, maintained in health, and provided with food and shelter sufficient to preserve their value. As beasts of burden, horses (and the same may have been true of slaves when slave labour was customary) are frequently bought for use during a period of temporary activity

in a certain industry, and sold again at the close of that period, quite commonly after an interval of rest and specially high feeding to enhance their saleable value. Where such a period of activity has been met by the employment of wage-paid labour at what Ricardo termed the natural rate, it is evident that the labourer is in a worse position than the horse, or the slave; for as soon as his services are no longer immediately profitable he is dismissed without any means of support, whereas the horse or the slave being valuable property is preserved in good health and condition until profitable employment for either is again possible.

If the abolition of the status of slavery were a warrantable interference by the legislature with the rights of private property on humanitarian grounds, such interference is more justifiable for the purpose of redeeming the wage slave from a condition worse than that of a human chattel. In slave-holding times emancipation was often sought by riot and bloodshed, but the action of the state secured the same end by orderly process. At the present time, since the means accepted in the attempt to fix wages is that of strikes and contention disastrous to the community, it is obviously the duty of the state to provide machinery for their orderly adjustment on such terms as shall be received with general consent. The Ricardian "natural rate of wages" coincides in amount with the minimum rate, but unless the increased value produced, i.e. the profits, are sufficient to pay this, the industry to the extent of that shortage is wasting the capital and labour employed therein.

The sum of the cost of production is the value of the raw material used, the depreciation of the mechanical appliances, the interest on the capital invested

calculated at the normal rate earned by gilt-edged securities plus a charge for insurance to cover the risk of the investment, the cost of skilled supervision, and the slave maintenance; this last coinciding with the minimum or Ricardian rate of wages.

If the increased value produced just balances the sum of these costs there is neither profit nor loss. Any failure to balance is less, any surplus value is profit; loss can be wiped out by maintaining the same total production whilst reducing any or all of these costs, by increasing production for the same total costs, and in certain cases of monopoly (where reduced supply of the special article would not be injurious to the community) by reducing production and costs whilst maintaining their same relative proportions.

The same commodity cannot have different values in the same market, so that it is evident where the commodity produced is subject to competition, the only way to turn loss into profit is by increasing the ratio of production to costs. It is the work of industrial statesmanship to make such provisions as will give everyone engaged in the industry cogent and unimpeachable reason to rely on receiving a personal advantage from the profits; the higher these profits are, the lower must be the relative cost of production, and the greater the increase of value produced by the exercise of the industry.

The manifestly fair distribution of this increase of value is the problem upon which depends industrial peace with all its certainties of improvement in the economic standard of life. The problem is usually approached and its solution attempted in a cloud of false assumption, the most disturbing of which is that to increase wages is to increase the cost of production. But the distribution of profits has no direct influence

on the cost of production which must be ascertained before any profits can be known to exist. If the whole of these profits were allotted to the workmen as wages, the cost of production would not be affected in any way; if the whole were allotted to the investors in the industry, the cost would still remain the same; if they were confiscated by taxation, again the cost is unaltered; if they were absorbed by a decrease in selling price the cost of production is still unchanged.

As wages can only be paid out of profits, and profits depend on the ratio between cost of production and increase of value produced, the higher the wages, other things being equal, the lower must have been the cost of production.

We arrive here at a flat contradiction of the almost universally believed statement that the lower the wages the lower must have been the cost of production.

The first statement logically follows from Jevons and Walker's law, that wages are part of profits, the last from Ricardo's, that wages are part of the cost. The only logical deduction from this is that either the observation or the reasoning of one of the parties was at fault, or that they applied the one term "wages" to two different factors of altogether contrary functions.

What Ricardo termed wages was the maintenance allowance sufficient to maintain the organism employed in production at the most economically efficient standard. It applied equally to coal, to animal labour, to slave labour, or to labour under contract. It coincides with the minimum wage as fixed by economic law, though not necessarily as otherwise fixed when it might be added to by taxation.

I propose to call this Ricardian or minimum wage maintenance. It depends not at all on profits. It must be fixed altogether irrespective of earnings in

a single industry ; its amount depends on the price of what is necessary to keep the workman in health and strength.

The term "wages" I propose to restrict to what Jevons and Walker understood by the word, that is, the workman's share of the profits produced by the industry in which he is employed. In any industrial profit and loss account, maintenance must be on the debit side, wages on the credit, and only after having defined which items are profit and which loss does it become possible to make an allocation of the profits.

CHAPTER X

THE ADJUSTMENT OF WAGES IN CONFORMITY WITH THEIR TRUE LAW

HAVING reached this stage of our enquiry we may consider the solution of the dispute of 1921 in the coal mining industry, by applying the principles which it has been sought to establish in the preceding chapter.

The first thing necessary for a reasoned solution is unimpeachable statistics freely accessible to the adjudicators. On the loss side must appear maintenance including minimum wage of the miner, cost of management, depreciation, and interest and insurance charges. On the profit side proceeds of sale in open market. All the above should be calculated on the average for the whole industry. Unless the whole industry is carried on at a loss to the community the calculation should show an average rate of profit. It is fair to suppose that whether in a particular mine this average rate of profit is attained or surpassed depends broadly upon conditions independent of the miner, such as richness of seam, adequacy of equipment, efficiency of organization, scale of capitalization. The miners' share of the profits, therefore, should be ruled by the average rate, not the rate of the particular mine in which he is employed; and whatever be its amount it should be a fixed charge on profits, a fixed proportion of the average profits, but paid out of the earnings of the particular mine in which he is employed. If the earnings of the mine be above the average, the proprietors, if it should take the surplus, if below the

average, they should bear the deficiency. The investors' profit would depend on the earnings of their own mine, the miners' on the earnings of the whole industry, and any increase of wages would prove that cost of production had been reduced relatively to the market price of coal.

The fair proportion of the average profit which should be paid to the miner, as wages, apart from the maintenance or minimum allowance, if unimpeachable statistics were available and the principle on which profits should be fairly divided agreed to, does not appear to the writer impossible of determination, and it is submitted that statistics must be made public and that the principles as set out above are fair, also that adjustment of wages on those principles secures that everyone concerned, owner, miner and the community are manifestly interested in the promotion of efficiency in the industry.

Even if wages in a particular industry are a dole from the taxpayer they are necessarily paid out of profits, but in such a case they are paid from the profits earned in other industries. If in the coal mining industry the miners' share of the average profits in addition to maintenance paid out of cost were a fixed percentage, it might be that some of the poorer mines would be unable to pay the miners working in them, but for this to be the case their profits must be below the average by an amount greater than the average owner's share. The incentive to improve this result would be very urgent on the miner, the owner and the community—on the miner because otherwise the mine would close down; if it were possible to liquidate any of the capital invested therein; on the owner because the whole of the increase in profit, if by any means profit could be

increased, would form his share; and on the community, as by the improvement unemployment consequent on displacement of the miner would be prevented. The increased supply of coal would offer many economic advantages, and miners' wages would rise in proportion to the reduction of the relative cost of production following on the increased value created by the mining industry.

The settlement reached in the Coal Mining dispute in 1921 is an extremely interesting one, and inasmuch as for one whole field of a national industry for the first time, the principle of the rise and fall of wages, being made dependent upon the increase and decrease of profits was agreed to, it forms an entirely new departure in industrial economics.

This settlement was arrived at by conscientious and strenuous efforts to reach a fair judgment upon an extremely intricate and vexed question. We have good reason for hoping that so important a principle having once been incorporated in an agreement for so extensive an industry, it may obtain a wider and growing acceptance for other industries, until it is generally acknowledged as applicable to the whole field of wage adjustment. There does not appear, however, in the settlement evidence of any clear conception of all the general principles involved, much less a recognition and acceptance of the true law of wages which it has been the writer's purpose in the foregoing pages to lead up to and demonstrate. Had there been general acceptance of that law, agreement would have been dependent only upon ascertainment of the figures involved, and the problem one of accountancy, for the elucidation of which neither strike nor lock-out could be in any way helpful.

The agreement fails to conform to the law of wages

because there has been no clear conception of which items should be placed on the credit side, and which on the debit side of the industrial balance sheet. To recapitulate, debit, i.e. costs, must include maintenance of workers' allowance, i.e. minimum wage, maintenance of plant, depreciation and standing charges. On the credit side gross receipts from sale of the commodity produced. The difference is the profit, and this falls to be shared between the workmen as wages and the owners as dividend, and whatever be the proportion in which the profits are shared the cost of production is unaffected. The profits to be divided between workmen and owners can only be increased in two ways; first and certainly by increased efficiency, second, and perhaps, by increased selling price of the commodity. But as increase of price would almost certainly reduce demand, there is great probability that a rise of price would so reduce the volume of sales as to lower wages and dividends. If wages be less than in other industries making equal demands on the workmen, there will be a displacement of workmen towards the better paid industries; if dividends are less than in other fields of enterprise for capital of equal risk, there will be a displacement of capital to those fields and a curtailment of employment in the industry. An Industrial Department in possession of correct statistics, tabulated in such a form as to show the vital facts of industry, would be able to furnish such comparative data as would enable accountants to decide whether the profits in a certain given industry were greater or less than the average in proportion to the costs. It would then be clearly evident, to both owners and workmen in industries which were below the general average, that unless and until efficiency were increased their means of

livelihood would be in peril, and we may reasonably suppose that combined efforts would be made to promote efficiency.

If with recognition of the real nature of wages an accepted ratio for the division of present and future profits could be arrived at, it is certain such an impulse would be given to industrial effort as, joined with the prevention of the malignant and destructive effects of disputes, would make economically possible an unprecedented advance of the standard of living. The great practical advantage of an agreement as to the proportion in which profits should be divided, after being clearly ascertained, by their correct separation from costs under the true law of wages, and by veracious accountancy, would be that the agreement would apply to all cases and in all circumstances. Heretofore wages agreements have been in their very nature temporary expedients, having no sanction and pretending to none except in such cases where the cost of living and profits were the same as at the time that wages were fixed.

The minimum wage—the cost of maintenance—of the workers should vary directly as the cost of living; the interest on capital should also vary with the interest on gilt-edged securities, for both these items are costs, and factors extraneous to the individual industry forming the subject of any particular enquiry. These two items could quite as easily be arrived at as is the cost of living, they could be periodically announced and made compulsory.

In the coal mining agreement there was no recognition of what really form the costs of production; a standard wage was fixed, but this is neither the minimum wage nor the actual wage; it cannot be truly designated as altogether part of the costs, neither

does it consist entirely of profits. To the extent that it is minimum or maintenance allowance it is costs; to the extent that it exceeds this minimum it is, as if earned in "the industry," profits. The agreement provides that this standard wage is to be supplemented by 83 per cent of the proceeds of the industry after deducting standard profits which are defined as 17 per cent of standard wages. It will be seen that the whole arrangement is extremely involved, and except for the recognition of the principle that wages are to some extent to be regulated by profits, contributes nothing to the general subject of the fair adjustment of wages. *The fundamental need for social economics is that the real law of wages be understood, and then agreement in any one industry by the application of the law would form a precedent for agreement in all industries at all times.*

It would be evident to the workmen that they could receive no more than their maintenance allowance, i.e. minimum wage, plus the whole of the surplus over costs, because there is no more earned in the industry. Their remuneration could only be increased by increasing the earnings, and in many cases to do this would need the investment of additional capital; but capital would not be invested unless there were a reasonable prospect that the investment would prove remunerative, so the share of profits to the owners must be large enough to attract capital necessary for development if the workmen's earnings are to increase.

Moreover, if at any time the workmen received all the profits, capital would as far as possible be withdrawn from the industry, and with its decreased earnings, wages also would suffer.

The conclusion therefore follows that there is a

point beyond which any increase in the workmen's percentage of the profits would operate to reduce their total earnings.

It has therefore been submitted that this point is reached when the percentage received by capital in the industry under consideration is less than the rate of interest current in gilt-edged securities, plus an insurance allowance for the particular speculative risk attending upon the investment of capital in that industry.

This is indeed capital's minimum wage or maintenance allowance, and really an item of cost; and any reduction thereon reduces the efficiency of the industry in exactly the same way as does a reduction of the minimum wage to a level below that sufficient for adequate maintenance of the workmen.

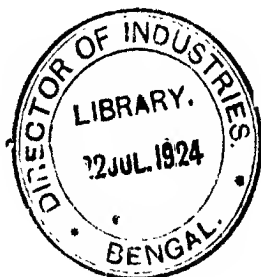
The division of surplus should manifestly be in a different proportion in industries where the proportion between the total minimum wage and total minimum capital charge was different, and might in fairness vary in conformity with that difference. It is submitted that where the total minimum wages and the total minimum capital charges are equal the surplus should be divided equally, and if the total minimum wage be double the total minimum capital charge, the workmen should have for their share two-thirds of the earnings of the industry added to the minimum wage.

The earnings should be divided upon the same principle inversely applied when the total minimum wages are less than the total minimum capital charges through all their variations in the whole range of industries.

In all cases outside the statistical data of the greater industries, and where, therefore, the earnings could

not be exactly determined, wages might be fixed at the rates current in the industries, the earnings of which were known, and in which the demands made upon the workers were of approximately equal extent.

This contribution to the problem of the adjustment of wages is submitted in the hope that it may help forward the day when it will be possible for all who desire that wages should be fair, to be able to form a considered judgment of their conformity to that condition; good citizens will then exercise all the resources of citizenship to secure that end, so that the community may enter into economic peace with all the blessings of prosperity that must inevitably attend upon the establishment of righteous peace in place of destructive anarchy.



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